$13,635,000
General Obligation Bonds, Series 2020

And

$13,205,000
General Obligation Refunding Bonds, Taxable Series 2020

Town of Addison, Texas

"Aaa" Moody's Investors Service

"AAA" Standard & Poor's

August 11, 2020

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TAB A

TABULATION OF BIDS RECEIVED

BIDS DUE TUESDAY AUGUST 11, 2020 AT 10:00AM CDT

$13,635,000
TOWN OF ADDISON, TEXAS
GENERAL OBLIGATION BONDS, SERIES 2020

ACCOUNT MANAGER	TRUE INTEREST COST
J.P. Morgan Securities LLC	1.406024%
FHN Financial Capital Markets	1.425261%
Robert W. Baird & Co., Inc.	1.445994%
Fidelity Capital Markets	1.456872%
Citigroup Global Markets Inc.	1.459512%

Prepared by:

HilltopSecurities
A Hilltop Holdings Company.

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Bond Debt Service

Town of Addison, Texas
$13,635,000 General Obligation Bonds, Series 2020
Tax-Exempt Rates as of 08/11/2020 (AAA/Aaa)
***** Winning Bid from JP Morgan Securities LLC *****

Period Ending	Principal	Coupon	Interest	Debt Service
9/30/2021	535,000	3.000%	367,826.42	902,826.42
9/30/2022	520,000	3.000%	380,050.00	900,050.00
9/30/2023	535,000	3.000%	364,225.00	899,225.00
9/30/2024	550,000	4.000%	345,200.00	895,200.00
9/30/2025	575,000	4.000%	322,700.00	897,700.00
9/30/2026	600,000	4.000%	299,200.00	899,200.00
9/30/2027	620,000	4.000%	274,800.00	894,800.00
9/30/2028	655,000	5.000%	246,025.00	901,025.00
9/30/2029	685,000	5.000%	212,525.00	897,525.00
9/30/2030	720,000	4.000%	181,000.00	901,000.00
9/30/2031	690,000	4.000%	152,800.00	842,800.00
9/30/2032	715,000	2.000%	131,850.00	846,850.00
9/30/2033	725,000	2.000%	117,450.00	842,450.00
9/30/2034	740,000	2.000%	102,800.00	842,800.00
9/30/2035	760,000	2.000%	87,800.00	847,800.00
9/30/2036	770,000	2.000%	72,500.00	842,500.00
9/30/2037	785,000	2.000%	56,950.00	841,950.00
9/30/2038	800,000	2.000%	41,100.00	841,100.00
9/30/2039	820,000	2.000%	24,900.00	844,900.00
9/30/2040	835,000	2.000%	8,350.00	843,350.00
	13,635,000		3,790,051.42	17,425,051.42

True Interest Cost (TIC)	1.399084%
Cash Premium Received From Purchaser	1,608,431.12

Note: FINAL

TAB B

TABULATION OF BIDS RECEIVED

BIDS DUE TUESDAY AUGUST 11, 2020 AT 10:30 AM CDT

$13,205,000
TOWN OF ADDISON, TEXAS
GENERAL OBLIGATION REFUNDING
BONDS, TAXABLE SERIES 2020

ACCOUNT MANAGER	TRUE INTEREST COST
UMB Bank, N.A.	1.113347%
Robert W. Baird & Co., Inc.	1.172530%
Fifth Third Securities, Inc.	1.196724%
Morgan Stanley & Co, LLC	1.198559%
BOK Financial Securities, Inc.	1.212053%
Piper Sandler & Co	1.260021%
Citigroup Global Markets Inc.	1.279530%
Raymond James & Associates, Inc.	1.291417%
KeyBanc Capital Markets	1.431434%

Prepared by:

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Bond Debt Service

Town of Addison, Texas
$13,205,000 General Obligation Refunding Bonds, Taxable Series 2020
Taxable Rates as of 08/11/2020 (AAA/Aaa)
***** Winning Bid from UMB Bank, N.A. *****

Period Ending	Principal	Coupon	Interest	Debt Service
9/30/2021	280,000	0.200%	117,211.95	397,211.95
9/30/2022	275,000	0.300%	125,287.50	400,287.50
9/30/2023	1,160,000	0.350%	122,845.00	1,282,845.00
9/30/2024	1,225,000	0.400%	118,365.00	1,343,365.00
9/30/2025	1,240,000	1.000%	109,715.00	1,349,715.00
9/30/2026	1,250,000	1.000%	97,265.00	1,347,265.00
9/30/2027	1,260,000	0.850%	85,660.00	1,345,660.00
9/30/2028	1,275,000	1.000%	73,930.00	1,348,930.00
9/30/2029	1,285,000	1.150%	60,166.25	1,345,166.25
9/30/2030	1,300,000	1.200%	44,977.50	1,344,977.50
9/30/2031	1,320,000	1.350%	28,267.50	1,348,267.50
9/30/2032	1,335,000	1.450%	9,678.75	1,344,678.75
	13,205,000		993,369.45	14,198,369.45

True Interest Cost (TIC) **1.109101%**

Note: Final

Summary of Bonds Refunded

Town of Addison, Texas
$13,205,000 General Obligation Refunding Bonds, Taxable Series 2020
Taxable Rates as of 08/11/2020 (AAA/Aaa)
*** Winning Bid from UMB Bank, N.A. ***

Bond	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
$22,590,000 General Obligation Refunding & Improvement Bonds, Series 2012, 2012REF, BOND:					
	2/15/2023	5.000%	910,000.00	2/15/2022	100.000
	2/15/2024	5.000%	955,000.00	2/15/2022	100.000
	2/15/2025	5.000%	1,010,000.00	2/15/2022	100.000
	2/15/2026	5.000%	1,060,000.00	2/15/2022	100.000
	2/15/2027	5.000%	1,115,000.00	2/15/2022	100.000
	2/15/2028	5.000%	1,170,000.00	2/15/2022	100.000
	2/15/2029	5.000%	1,230,000.00	2/15/2022	100.000
	2/15/2030	5.000%	1,295,000.00	2/15/2022	100.000
	2/15/2031	3.000%	1,350,000.00	2/15/2022	100.000
	2/15/2032	3.125%	1,385,000.00	2/15/2022	100.000
			11,480,000.00		
$1,250,000 General Obligation Bonds, Taxable Series 2013B, 2013B, TERM_33:					
	2/15/2033	5.000%	760,000.00	2/15/2023	100.000
			12,240,000.00		

Average coupon of refunded bonds: 4.360214%

Note: Final

Savings

Town of Addison, Texas
$13,205,000 General Obligation Refunding Bonds, Taxable Series 2020
Taxable Rates as of 08/11/2020 (AAA/Aaa)
***** Winning Bid from UMB Bank, N.A. *****

Date	Prior Debt Service	Refunding Debt Service	Savings
9/30/2021	559,031.26	397,211.95	161,819.31
9/30/2022	559,031.26	400,287.50	158,743.76
9/30/2023	1,446,281.26	1,282,845.00	163,436.26
9/30/2024	1,503,156.26	1,343,365.00	159,791.26
9/30/2025	1,510,906.26	1,349,715.00	161,191.26
9/30/2026	1,505,906.26	1,347,265.00	158,641.26
9/30/2027	1,508,156.26	1,345,660.00	162,496.26
9/30/2028	1,507,406.26	1,348,930.00	158,476.26
9/30/2029	1,503,656.26	1,345,166.25	158,490.01
9/30/2030	1,506,656.26	1,344,977.50	161,678.76
9/30/2031	1,509,906.26	1,348,267.50	161,638.76
9/30/2032	1,503,640.63	1,344,678.75	158,961.88
9/30/2033	97,375.00		97,375.00
	16,221,109.49	14,198,369.45	2,022,740.04

Savings Summary

Savings PV date	9/10/2020
Savings PV rate	1.240572%
PV of savings from cash flow	1,866,359.89
Net PV Savings	1,866,359.89
Percentage savings of refunded bonds:	15.248038%

Note: Final

TAB C

HISTORICAL SALE INFORMATION	SALE DATE	INTEREST RATE	ISSUE'S AVERAGE LIFE
$13,635,000 Town of Addison, Texas General Obligation Bonds, Series 2020	**8-11-20**	**1.399084%**	**10.762 Years**
$13,205,000 Town of Addison, Texas General Obligation Refunding Bonds, Taxable Series 2020	**8-11-20**	**1.109101%**	**6.779 Years**
$16,900,000 Town of Addison, Texas Combination Tax and Revenue Certificates of Obligation, Series 2019	9-10-19	2.3120186%	10.861 Years
$13,115,000 Town of Addison, Texas Combination Tax and Revenue Certificates of Obligation, Series 2019	12-11-18	3.301605%	12.055 Years
$23,560,000 Town of Addison, Texas General Obligation Refunding Bonds, Series 2016	5-13-16	2.405770%	10.070 Years
$2,145,000 Town of Addison, Texas General Obligation Refunding Bonds, Series 2014 (AMT)	2-25-14	1.462139%	3.572 Years
$12,000,000 Town of Addison, Texas General Obligation Bonds, Tax-Exempt Series 2014	2-25-14	3.287768%	12.268 Years
$7,565,000 Town of Addison, Texas Combination Tax and Revenue Certificates of Obligation, Series 2014	2-25-14	3.287297%	12.041 Years
$4,665,000 Town of Addison, Texas General Obligation Bonds, Tax-Exempt Series 2013	7-15-13	3.8718352%	11.587 Years
$1,875,000 Town of Addison, Texas General Obligation Bonds, Series 2013A (AMT)	7-15-13	4.4466654%	11.461 Years
$1,250,000 Town of Addison, Texas General Obligation Bonds, Taxable Series 2013B	7-15-13	4.8394296%	11.555 Years
$10,185,000 Town of Addison, Texas Combination Tax and Revenue Certificates of Obligation, Series 2013	7-15-13	3.8685514%	11.469 Years
$22,590,000 Town of Addison, Texas General Obligation Refunding and Improvement Bonds, Series 2012	8-14-12	2.7251433%	10.430 Years
$14,835,000 Town of Addison, Texas Combination Tax and Revenue Certificates of Obligation, Series 2012	8-14-12	2.8799953%	12.926 Years
$8,890,000 Town of Addison, Texas General Obligation Refunding Bonds, Series 2011	10-25-2011	1.498055%	3.686 Years

TAB D

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
16 July 2020

Rate this Research

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Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Addison (Town of) 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 financial profile is solid with high reserve and liquidity levels, strengthened by access to additional liquidity outside the main operating funds. The ample reserves mitigate the town's vulnerability to weaker economic cycles because of slightly higher reliance on sales tax revenue. The exposure during softer economic times is exacerbated by the town's role as a major job center serving as home to several corporations, evidenced by a high daytime to nighttime population ratio. Positively, conservative budgeting practices and an adept management team with a willingness and the ability to reduce expenditures has allowed and continues to position the town in a solid position to manage the currently weaker economic and financial cycle. All these strengths are balanced against slightly higher debt ratios compared to peers. Positively, the pension burden is affordable and will not be a drag on credit quality over the next several years.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for the Town of Addison TX. Despite its exposure to a high concentration of commercial property and sales taxes, the town has ample reserves and liquidity and the ability to make expenditure reductions to match revenue shortfalls. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the Town of Addison, TX changes, we will update our opinion at that time.

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 revenues compared to peers

» Debt levels are slightly elevated compared to peers

» Debt retirement is slower than peers

Rating outlook

The stable outlook reflects the strength of the management team with budget reductions that will allow for structurally balanced operations to persist even during the currently softer economic and financial cycle. These practices supported by a stable economy, solid liquidity position and conservative expectations for the fiscal 2021 budget per the current plan will allow the credit profile remain stable over the next 18 to 24 months.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Reduction in reserve levels

» Significant economic decline

» Sizable debt issuance absent corresponding tax base growth

Key indicators

Exhibit 1

Addison (Town of) TX	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value ($000)	$3,805,581	$4,036,724	$4,300,272	$4,450,534	$4,725,759
Population	15,087	15,363	15,455	15,626	15,626
Full Value Per Capita	$252,242	$262,756	$278,245	$284,816	$302,429
Median Family Income (% of US Median)	119.8%	126.3%	125.4%	119.1%	119.1%
Finances					
Operating Revenue ($000)	$40,088	$42,051	$47,377	$46,938	$46,861
Fund Balance ($000)	$12,591	$13,796	$16,742	$20,634	$20,102
Cash Balance ($000)	$13,303	$14,260	$17,448	$21,065	$20,111
Fund Balance as a % of Revenues	31.4%	32.8%	35.3%	44.0%	42.9%
Cash Balance as a % of Revenues	33.2%	33.9%	36.8%	44.9%	42.9%
Debt/Pensions					
Net Direct Debt ($000)	$86,689	$83,728	$77,650	$72,650	$68,735
3-Year Average of Moody's ANPL ($000)	$51,731	$62,796	$67,894	$59,716	$54,669
Net Direct Debt / Full Value (%)	2.3%	2.1%	1.8%	1.6%	1.5%
Net Direct Debt / Operating Revenues (x)	2.2x	2.0x	1.6x	1.5x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.4%	1.6%	1.6%	1.3%	1.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.5x	1.4x	1.3x	1.2x

Financial data considers the general and debt service funds
Source: Town of Addison, TX Comprehensive Annual Financial Reports, US Census

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 15,600.

Detailed credit considerations

Economy and tax base: moderately sized and growing tax base with major job center

The town's tax base and position as a major job center anchors its economy, although the pace of growth over the next two to three years will weaken if the coronavirus pandemic continues to reduce global demand and economic output. The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail and oil and gas could suffer particularly severe impacts.

The Town of Addison has a high level of commercial property, leaving its tax base particularly vulnerable to loss in periods of economic stress. Retail, commercial and industrial property account for almost 50% of the base. This number increases to about 60% when including tangible personal, commercial property. Residential property accounts for a smaller but still substantial 34%, including single and multifamily property. Positively, the town has a demonstrated ability to manage periods of stress which we expect will continue and is a key consideration in the credit profile.

Town officials report stable economic conditions. Office occupancy rates stand at 80% and there are no reports of business closings or disruption with the major taxpayers. Although the town has limited land for new development, redevelopment of existing property continues to drive growth and town officials report no delay in development projects. Preliminary estimates for fiscal 2021 assessed value reflect an increase of 14% to $5.4 billion but town officials expect that the certified value will be closer to $5 billion, an increase of 3.8% over the prior year. In the past five years, the town's assessed value has grown an average annual rate of 4.8% to reach $4.8 billion in fiscal 2020.

The town's position as a major commercial center with more than 12 million square feet of office space, 23 hotels, more than 180 restaurants and one of the largest general aviation municipal airports in the county, has driven favorable demographic trends. Population growth has been well above double digits over the previous three census cycles before a 7% decrease in the 2010 Census. Since then, population has grown almost 20% to about 15,600 residents per the 2018 American Community Survey. With the population growth and access to corporate job opportunities, the town's median family income (MFI) has strengthened over time to reach the 2018 estimate of 119.1% of the nation, also per the American Community Survey. However, the pace of growth has not kept up with home values with the 2018 median home value at 158.7% of the nation, pointing to some challenges regarding home affordability. In Dallas County, labor force participation has increased over time even though the May 2020 county unemployment rate was a high 12.8%, on par with both the state's and the nation's, reflecting the economic reality of mounting job loss stemming from the pandemic outbreak.

Financial operations and reserves: high reserve levels with access to non-general fund liquidity

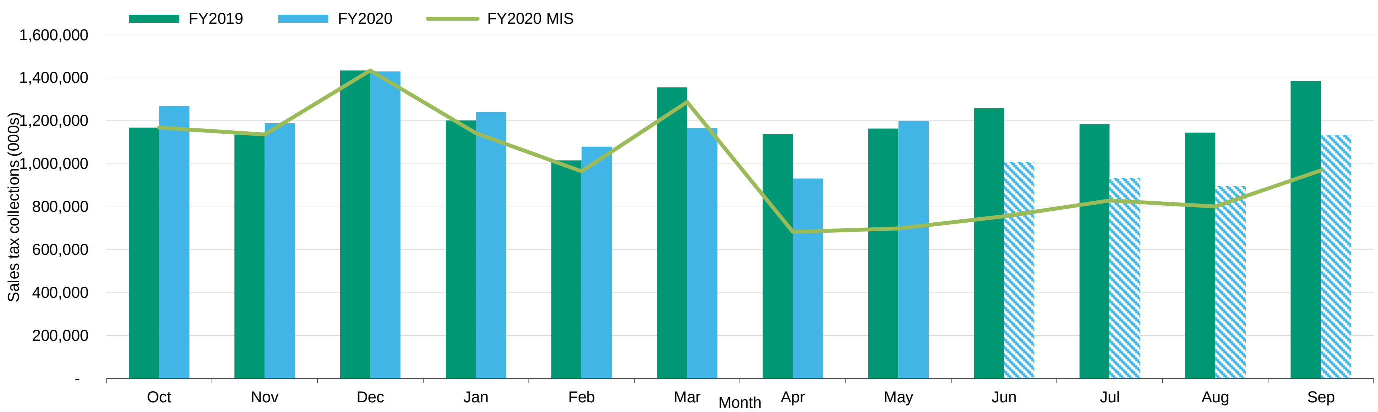
Addison's solid financial position will remain through the end of the current fiscal year guided by expense controls despite weaker revenue performance. Revenue performance, though weaker, is better than expected and when coupled with expense controls will allow the town preserve its high reserve position.

The town's fiscal 2020 (September 30 year-end) adopted budget showed a $4 million draw to support one time capital initiatives. Since then, the town has revised its revenue estimates to reflect the effect of the coronavirus pandemic while reducing expenditures to offset the revenue shortfall. However, revenues, particularly sales taxes, have performed better than expected and now town officials expect a much smaller total revenue variance based on July numbers compared to the original April estimate.

On July 14, the town revised its estimates to show general fund revenue totaling $39.4 million, a $266 thousand increase compared to the budget, by the end of the year. The largest positive variance was in sales tax collections, which was the second largest source of revenue in 2019 at 40%. Town officials had originally estimated a $1 million (7.3%) reduction in total collections in April. The April estimate followed conservative budget assumptions that included a 10% decrease in budgeted sales tax collections. However, sales tax revenue performance has been better than expected. The performance has also been more favorable than our base case scenario (see Exhibit 2) guided by our view of GDP growth and prolonged economic weakness. Under our scenario, sales tax collection was 100% of normal collections in 2019 fourth quarter (Q4), before falling by 5% in Q1 2020. Collections fall further by 40% in Q2 2020 and then 30% in Q3 2020. As of the May check, year to date sales taxes were only 1.1% below the prior year's. Thus, the July town estimate shows general fund sales tax collections coming in at $13.6 million or 0.8% below the budget by the end of the year compared with our $12.9 million reflecting a 6.1% decrease. Property taxes, the largest source of general fund revenue at almost 43% in fiscal 2019, was close to budget and largely received by February.

Exhibit 2

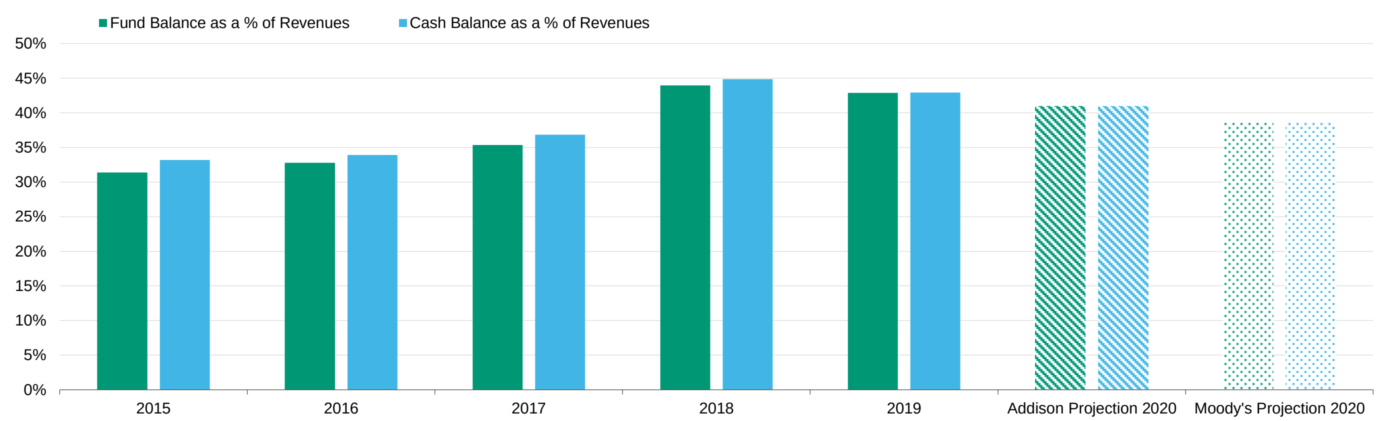
Sales tax collections have outperformed our base case scenario



June through September numbers reflects a $250 thousand decrease in each month compared to the prior year per town officials
Source: Town of Addison, TX, Moody's Investors Service

In response to weaker revenue performance, the town reduced expenditures by $1.5 million. The town was also able to reduce its capital related transfers by about $500 thousand to $3.6 million. With these adjustments, the town is currently estimating a $1.8 million draw by the end of the year. Total general fund balance is projected to be $18.8 million, an ample 47.6% of estimated revenue. The town's fund balance estimate is $1.7 million higher than our estimate, which includes our base case sales tax scenario for the rest of the year. Our assumptions also include that the town's other revenues remain constrained to the town's April estimate, which coincided with shelter in place measures and included a 61.4% reduction in mixed beverage tax and relative stability in other revenues. The debt service fund is projected to end with a $150 thousand balance. Even under our scenario and when including the debt service fund, the town's reserves will remain above 38% of our projected operating fund revenue (see Exhibit 3).

Exhibit 3



Data considers the general and debt service funds
The town's projection is as of the July 14 estimate
Moody's projection includes our base case scenario for sales taxes for the rest of the year, and holds all other revenue constant from the town's April estimate
Source: Town of Addison, TX Comprehensive Annual Financial Reports, Town of Addison, TX FY 2020 July Estimate, Moody's Investors Service

In addition to its high general fund reserves, the town also maintains additional financial flexibility in three non-general funds. The funds are estimated to have $7.7 million at fiscal year end 2020, with a majority of the moneys housed in the Infrastructure Investment Fund ($5.2 million) and Self Funded Streets Projects Fund ($1.7 million), with a small amount ($750 thousand) in the Self Funded Special Projects Fund. When adding these balances to the general fund, the town's liquidity is 67% of estimated revenue.

The town's estimated fiscal 2020 performance builds on its long history of solid operating performance and ample reserves. In fiscal 2019, the town reported a modest $375 thousand draw, reducing the available general fund balance to $20.1 million (a solid 49.9% of revenue). Including the debt service fund, available reserves decreased to a still strong $20.1 million (42.9% of operating revenue).

Preliminary planning for fiscal 2021 is underway. Sales tax collections are projected to be down 9.3% from the July estimate for fiscal 2020. With growth in other revenue sources, such as property taxes and no transfer to support capital initiatives, town officials project a balanced budget for the year.

LIQUIDITY

The town's liquidity position is solid with current cash totaling $25.6 million and $1.4 million in the debt service fund.

At fiscal year end 2019, cash and investments totaled $20.1 million or 49.9% of revenue. Cash was relatively unchanged even when considering the debt service fund.

Debt and pensions: affordable debt and pensions

The town's debt and pension profile will remain affordable over the next three to five years supported by a moderately sized tax base and capacity to increase property tax revenues for debt repayment. Including the July 2020 sale, the town's total outstanding debt will reach $118.7 million yielding a direct debt burden of 2.5% of the fiscal 2020 assessed value. Net of $22.4 million supported by the water, sewer and drainage systems, the debt burden falls to 2%. This metric increases to 3.8% when including debt by overlapping entities. The town currently has $81.5 million in authorized but unissued debt and plans for annual debt issuance until the authorization is exhausted.

DEBT STRUCTURE

Principal payout is below similarly rated peers with 62.1% of principal retired in 10 years. The debt service schedule is largely descending until final maturity in fiscal 2040.

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.

Addison's adjusted net pension liability (ANPL), based on a 3.88% discount rate, was $54.6 million in fiscal 2019. By comparison, the town reported a GASB net pension liability of $10.8 million, based on a 6.2% discount rate; these figures are net of self support from the utility system. The town's ANPL has fluctuated over the past three to five years in part because of the town's decision to award cost of living adjustments. Under TMRS plan rules, the town has the flexibility to award cost of living adjustments (COLAs) to employees on an ad hoc basis annually. The town is required to include the COLA election in the pension liability calculation in years in which certain criteria is met per the Government Accounting Standards Board (GASB) rules. A COLA election increases the town's pension liability and the town's history reflects fluctuation in reported pension liability, as a direct result. For example, at fiscal year end 2018, the town reported an unfunded liability of negative $192 thousand in fiscal 2018 compared with the $6.5 million in fiscal 2017 or the $25.3 million at fiscal year end 2016, after adjusting for self support allocated to the utility system.

The town's pension contributions have typically accounted for less than 5% of operating revenue and have been equal to the actuarial determined contribution (ADC), including fiscal 2019 where contributions totaled 4.3% of the year's operating revenue. In fiscal 2019, the town's contribution exceeded our $1.5 million “tread water” indicator by 33% which is the level at which we have determined there would be no increase in unfunded pension liability, based on reported assumptions. The town's tread water contribution level is also heavily influenced by a COLA election.

The town's adjusted OPEB liability (adjusted NOL), based on a 4.2% discount rate, was $3.8 million in fiscal 2019. At about 8% of revenue, the town's adjusted NOL is only a small source of balance sheet leverage. The town contributed $157,000 during the year.

Inclusive of debt service, OPEB contributions and our tread water indicator for pensions, the town's fixed costs amounted to 17.9% of revenues in fiscal 2019, compared to 29.2% in 2015, reflecting COLA inputs. Fixed costs remain the same even when using actual pension contribution.

ESG considerations

ENVIRONMENTAL

Addison is exposed to natural and man made hazards by virtue of its location in the Great Plains per the National Climate Assessment. The town has high risk to water stress resulting in drought like patterns and also has medium risk to heat stress and extreme rainfall. The environmental shift will evolve over the longer term and the town will benefit from long range planning. The town's high reserves will also provide buffer to offset any potential related financial event.

SOCIAL

Social considerations are incorporated into the economy and tax base section. Please refer to that section for more detailed credit information.

GOVERNANCE

The town demonstrates good governance by multiyear capital and financial planning. The town also uses quarterly reviews of major operating funds in combination with a comparison of historical data. Financial practices are governed by conservative assumptions, as well as a historical willingness and ability to raise property tax rates during difficult financial periods, consistent with traits exhibited by a sophisticated management team. Although some of the town's ability to raise taxes will be limited by the most recent legislative change, the town's demonstrated ability for solid financial performance driven by prudent processes and practices will benefit the credit profile. The town maintains a fund balance policy equal to 25% of operations in its major operating funds, but town officials strive for a minimum of 30%.

Texas Cities have an Institutional Framework score of “Aa”, which is strong. The sector's major revenue sources (property taxes and sales taxes) account for about a third of revenues each and are subject to a cap; the remaining third is derived from other fees and is not subject to a cap. Property taxes, are subject to a statutory cap of $25 per $1,000 of assessed values, with no more than $15 allocated for debt. Most cities are well under the cap, and on an annual basis can increase their property tax revenues by 3.5% on existing property without voter approval. Most cities are at the sales tax cap for operating purposes. Unpredictable revenue fluctuations tend to be minor, or under 5% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures and are primarily debt service expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

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 4

Addison (Town of) TX

Scorecard Factors	Measure	Score
Economy/Tax Base (30%) [1]		
Tax Base Size: Full Value (in 000s)	$4,819,907	Aa
Full Value Per Capita	$308,454	Aaa
Median Family Income (% of US Median)	119.1%	Aa
Notching Factors:[2]		
Regional Economic Center		Up
Finances (30%)		
Fund Balance as a % of Revenues	42.9%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	6.0%	A
Cash Balance as a % of Revenues	42.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	5.1%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.0%	A
Net Direct Debt / Operating Revenues (x)	2.1x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.1%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.2x	A
Notching Factors:[2]		
Unusually Strong or Weak Security Features: Debt secured by statute		Up
	Scorecard-Indicated Outcome	Aa1
	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
Source: Town of Addison, TX Comprehensive Annual Financial Reports, US Census Bureau, Moody's Investors Service

REPORT NUMBER 1237380

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

S&P Global Ratings

RatingsDirect®

Summary:

Addison, Texas; General Obligation

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Summary:

Addison, Texas; General Obligation

Credit Profile		
US$14.195 mil GO bnds ser 2020 dtd 08/01/2020 due 02/15/2040		
Long Term Rating	AAA/Stable	New
US$13.275 mil GO rfdg bnds ser 2020 dtd 08/01/2020 due 02/15/2033		
Long Term Rating	AAA/Stable	New
Addison comb tax and rev certs of oblig		
Long Term Rating	AAA/Stable	Affirmed
Addison GO		
Long Term Rating	AAA/Stable	Affirmed
Addison GO		
Long Term Rating	AAA/Stable	Affirmed
Addison GO		
Long Term Rating	AAA/Stable	Affirmed
Addison GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating to the town of Addison's $14.2 million general obligation bonds, series 2020, and approximately $13.3 million general obligation (GO) refunding bonds, series 2020. At the same time, we affirmed our 'AAA' rating on the town's existing GO debt.

The series 2020 and GO bonds outstanding are direct obligations of the town, payable from a combination of 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 2020, Addison's total levy is well below the maximum at 58.35 cents per $100 of AV, 14.94 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.

Inclusive of the series 2020 issuance, the town will have approximately $87.3 million of net direct debt outstanding, a portion of which is considered self-supported. We understand proceeds from the bonds will fund various road construction projects and improvements to the Addison Athletic Club. The refunding bonds are being issued for interest savings.

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 has no history of government intervention. Addison has considerable financial flexibility, as demonstrated by its very strong general fund balance as a percentage of expenditures, as well as very strong liquidity.

Credit overview

Consistent operating surpluses, aided by strong management and prudent spending, has enabled Addison to transfer excess general fund revenues into its capital project fund in each of the last three fiscal years while maintaining its healthy reserve levels. The town's economy is primarily reliant on commercial properties, with many large corporate headquarters located in, and moving to the area. COVID-19 and resulting state-mandated business closures forced many of the town's taxpayers to close. Most will resume operations as lockdowns ease; however, some will have to close permanently due to the financial burden the recession has caused. (For more information, see "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020, on RatingsDirect.) Fortunately, the town of Addison has a diverse tax base spread across multiple sectors in a high demand MSA, all of which should help mitigate losses realized by some of the more affected industries. Combined with strong reserves, we view the credit as stable over our outlook horizon and believe management will prudently adjust operating budgets to maintain fiscal stability throughout the recession.

The rating reflects our view of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment methodology;
- Weak budgetary performance, with an operating deficit in the general fund and a surplus at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 56% of operating expenditures;
- Very strong liquidity, with total government available cash at 152% of total governmental fund expenditures and 11.7x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 13.0% of expenditures and net direct debt that is 154.6% of total governmental fund revenue; and
- Strong institutional framework score.

Environmental, social, and governance (ESG) factors

Our analysis of these risks encompasses our review of environmental, social, and governance risks that currently exist. Most notably, the ongoing pandemic and the social risk arising from it have led to social distancing measures implemented and restricted traditional commerce, as suggested by state and local governments to limit the coronavirus' spread. As a consequence, certain key revenues, such as sales taxes, have fallen. We have also analyzed the environmental risks and have determined that they are in line with our view of the sector standard. We acknowledge the town's very strong management, with strong financial policies and practices as a positive factor as it relates to the town's overall creditworthiness.

Stable Outlook

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 significantly, adding stress to its budgetary performance.

Credit Opinion

Very strong economy

We consider Addison's economy very strong. Located 15 miles north of downtown Dallas and positioned along several major thoroughfares, residents can easily access employment opportunities within the broad and diverse Dallas-Fort Worth-Arlington MSA. Its favorable location has stimulated residential and commercial growth and above-average wealth and income indicators. The town has a projected per capita effective buying income of 180% of the national level and per capita market value of $314,410. Overall, the town's market value grew by 2.0% over the past year to $4.8 billion in 2020

Unemployment has generally trended below national averages. In April 2020, unemployment rose to 12.8% within the MSA, highlighting the severity of the current recession. Preliminary data for May shows a slight decrease, to 12.3%, a possible indication that the economy is beginning to recover. However, with cases surging, particularly among southern states, the risk of additional business closures remains a possibility. (See "U.S. Biweekly Economic Roundup: Strong Job Gains May Slow As Virus Surges." Published July 02, 2020, on RatingsDirect.)

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 roughly 58% of the population holding a bachelor's degree or higher, which provides employers access to a competitive, skilled labor pool. While residents of the town have convenient access to employment opportunities within the town of Dallas and throughout the Dallas-Ft. Worth metroplex, Addison itself has a multitude of employment opportunities. Given its abundance of commercial space, the town is home to several corporate headquarters, including Mary Kay Cosmetics, Bank of America, and Mattress Giant. 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.

Real, commercial, and industrial properties account for 50% of total AV, followed by multi-family residential (17%) and single-family residential (16%). The town's economy is diverse, with the ten leading taxpayers representing 21% of total AV. Most are classified as office buildings with a few apartment properties and retail spaces. Mandated business closures beginning in March and many that are still in effect, required a significant portion of the town's businesses to close. Hotel occupancy rates reached a low of 13%; however, officials note that as of late June, occupancy is up near 30%. The industry still has a long way to go to recover, and one of its hotels, Crowne Plaza, has closed its doors. Expectations are that it will reopen; but, timing remains uncertain.

AV growth has generally been robust, increasing each year, looking back to 2015, a total of 27%, or on average, 5% per year. In 2019, a 240,000 sq foot office building opened, which is now headquarters to Occidental Chemical and Compass Data Centers. Other businesses have opened regional offices in the facility as well. Wingstop announced that they would be relocating its corporate headquarters to Addison in 2020, and many others have announced relocation plans and expansion plans within the town that should contribute to future AV growth.

Despite significant pressure on certain sectors of the town's economy, its diversity should provide a degree of stability. An additional 406 units within the town's Vitruvian Park mixed-use development will begin in the coming months. Moreover, Dallas Area Rapid Transit (DART) is constructing a commuter rail line called the Silver Line that will connect to the town's existing DART station. This $1.1 billion, 26-mile commuter rail line will traverse three counties and connect Addison to the Dallas-Fort Worth International Airport and numerous cities within the metroplex. Service is expected to commence in 2022.

Officials are estimating for a 3.5% increase in AV for 2021, with roughly $116 million of new properties added to the tax roll. However, they are conservatively projecting 0% growth in 2022 and 2023 as a result of the recession.

Very strong management

We view the town's management as very strong, with strong financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management utilizes three to five years of historical financial trend analysis to formulate the subsequent year's budget assumptions. Additionally, quarterly budget-to-actual financial reports are provided to the town council and can amend the operating budget when needed. The council annually adopts a five-year rolling capital improvement plan 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.

Weak budgetary performance

Addison's budgetary performance is weak, in our opinion. Our assessment considers our view that the pandemic and recession pose an event risk that could increase performance volatility for cities over the medium term. The town reported a deficit in the general fund of 1.1% of expenditures and a surplus across all governmental funds of 8.7% in fiscal 2019. In our calculations, we have adjusted the town's revenues and expenditures to treat recurring transfers as either revenues or expenditures, and eliminated significant one-time expenditures funded through cash-on-hand or debt proceeds.

Addison 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 2019 budget outperformed. The deficit result was exclusively attributable to the town's decision to transfer $4.5 million from the general fund to its capital projects fund. Although the budget was projecting a $4.7 million deficit, the net change in fund balance was a decrease in fund balance of approximately $374,000. Property taxes comprised the largest portion of 2019 revenues (43% of general fund revenues), followed by sales taxes (37%) and franchise taxes (6%).

Despite the severity of the recession, town officials are currently projecting a positive variance compared to the 2020 budget, which reflects a $4 million deficit and estimate they will end the year with an approximate deficit of $3 million, roughly 6% of projected expenditures. Again, consistent with past trends, the deficit result includes a $4 million transfer out of the general fund to the capital projects fund. COVID-19 and resulting business closures led to lower than expected sales tax collections through June; however, expenditure savings related to vacancies and energy savings will more than offset the declines in revenues.

In planning for the 2021 year, officials are projecting a 10% decline in sales tax collections but will continue to monitor events related to COVID-19 and make adjustments as needed. Provided the town's conservative budgeting history and strong management, we anticipate if revenue shortfalls are more severe than expected, management will prudently make offsetting adjustments to expenditures, ensuring maintenance of its healthy reserve levels. Financial projections through 2024 show balanced results with no remaining transfers scheduled out of the general fund. We expect that the town's budgetary performance will improve with the easing of lockdowns, and likewise, could face pressure if spikes in cases lead to further business closures or delays in reopenings.

Very strong budgetary flexibility

Addison's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 56% of operating expenditures, or $20.1 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The town has maintained very strong budgetary flexibility in each of the past three fiscal years. The available fund balance has remained more than 45% of general fund expenditures over the last three years and has consistently exceeded the town's formal reserve policy to maintain 25% of expenditures. Despite challenges from the pandemic, slowing of economic metrics, and lower-than-typical sales tax collections, expectations are to maintain very strong reserves for fiscal 2020. The town has a history of strong operating performance, and transfers of excess revenue from the general fund to the capital projects fund should limit the use of reserves.

Very strong liquidity

In our opinion, Addison's liquidity is very strong, with total government available cash at 151.5% of total governmental fund expenditures and 11.7x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary.

Relatively consistent issuances of general obligation debt over the past two decades demonstrate the town's strong access to external liquidity. We do not view the town's investments as aggressive, provided that they are held in U.S. agency securities, state investment pools, commercial paper, and certificates of deposit. It is our understanding that the town does not have exposure to any variable rate debt obligations nor privately placed debt obligations that would cause contingent liability issues for the town.

Weak debt and contingent liability profile

In our view, Addison's debt and contingent liability profile is weak. Total governmental fund debt service is 13.0% of total governmental fund expenditures, and net direct debt is 154.6% of total governmental fund revenue. We have adjusted our calculations for debt supported through the town's enterprise fund.

Addison's adopted five-year capital improvement plan serves as a blueprint to address subsequent growth and development prudently. The plan projects roughly $47.1 million of additional debt issued through 2023, primarily attributable to continued road reconstruction. The town typically issues annually as part of its capital plan and generally amortizes a similar amount. We expect the town's debt burden to 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.

Pension and other postemployment benefits (OPEB)

Addison's combined required pension and actual OPEB contributions totaled 4.2% of total governmental fund expenditures in 2019, and the town made its full required pension contribution.

The town participates in:

- Texas Municipal Retirement System (TMRS): 91.0% funded with a net pension liability of $11.8 million as of Dec. 31, 2018.

TMRS' actuarially determined contributions fell slightly short of our minimum funding progress (MFP) metric. The MFP metric assesses whether the most recent employer and employee contributions cover total service cost, plus unfunded interest cost, plus one-30th of the principal. When MFP is achieved, it indicates that an issuer has a strong funding discipline that aims to ensure timely progress on reducing its plans' liabilities. Actuarial assumptions include a discount rate of 6.75% and a 27-year closed amortization period. The plan's assumed discount rate is not considered aggressive, in our opinion. However, we consider the closed amortization period of 27 years as extended, leaving greater potential for costs to increase based on actual performance. Lastly, contributions are likely to increase, given the level percent of payroll funding method, as opposed to level-dollar contributions, which would result in consistent payments.

The town also provides certain health care benefits through a single-employer, defined-benefit OPEB plan known as the Supplemental Death Benefits Fund (SDBF) 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 2019, the town recognized OPEB expense of $282,226, or 0.2% of total governmental fund expenditures. As of the most recent actuarial valuation (Dec. 31, 2018), the town's total OPEB liability was $3.2 million.

Strong institutional framework

The institutional framework score for Texas municipalities is strong.