

Town of Addison, Texas

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Credit Profile

US\$34.5 mil Combination Tax and Revenue Certificates of Obligation, Series 2008
dated 05/01/2008, due 02/15/2033

Long Term Rating	AAA / Stable	New
Outstanding GO Refunding Bonds, Various Series		
Unenhanced Rating	AAA (SPUR) / Stable	Upgraded
Outstanding GO Bonds, Various Series, (AMBAC)		
Unenhanced Rating	AAA (SPUR) / Stable	Upgraded
Outstanding GO Refunding and Improvement Bonds, Series 2005, (FSA)		
Unenhanced Rating	AAA (SPUR) / Stable	Upgraded
Outstanding GO Bonds, Various Series, (MBIA)		
Unenhanced Rating	AAA (SPUR) / Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its standard long-term rating and underlying rating (SPUR) on Addison, Texas' existing general obligation (GO) debt to 'AAA' from 'AA', reflecting continued healthy financial trends and strong financial management. Standard & Poor's also assigned its 'AAA' rating to Addison's \$34.5 million series 2008 combination tax and revenue certificates of obligation.

The ratings reflect the town's:

- Participation in the Dallas metropolitan statistical area (MSA) and its desirable location for commercial and retail businesses;
- High wealth and income levels, coupled with a below-average property tax rate;
- Strong financial management and performance, including reserves that are still well above the town's minimum required levels,

- A diverse revenue stream that captured the strengths of the economic base, and
- Limited additional capital needs, combined with nearly two-thirds of debt outstanding being retired over 10 years.

An unlimited ad valorem property tax pledge secures the certificates. Officials will use certificate proceeds for general improvements, land acquisition, and costs related to a new redevelopment project.

Addison, with an estimated population of 15,250, is about 4.4 square miles along the Dallas North Tollway, 12 miles north of downtown Dallas, Texas' central business district. Addison is essentially an alternate employment center to the central business district, containing more than 11 million square feet of office space, 22 hotels, and more than 160 restaurants. Following occupancy rate declines in the earlier part of the decade, occupancy rates have improved to nearly 82%. The recent stability in commercial occupancy helped reverse several straight years of assessed value (AV) declines; fiscal 2006 AV of \$2.8 billion represented the first increase since fiscal 2002, when AV had risen to \$3.2 billion. Since then, AV has continued to grow to \$3.5 billion for the current fiscal year, or an extremely strong \$230,000 per capita.

With one of the state's busiest general aviation airports and the town's focus on quality-of-life and entertainment events, the transient population is also a significant economic contributor. There are nearly 4,000 hotel rooms, more than 300 corporate and private aircraft, and 160 restaurants based in the town, boosting per capita retail sales to roughly 600% of state and national levels.

Addison's financial operations are sound. The town reported a \$10.4 million unreserved, undesignated general fund balance, or 38% of annual operating expenditures, at fiscal year-end 2007. The town's property tax rate remains low for the region at \$0.43 per \$100 of assessed value, though this may increase as a result of this issuance. Property tax revenue accounts for 33% of general fund revenues. Sales tax revenues typically account for roughly 40% of general fund revenues and have increased in each of the past five years.

The town's financial management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA) methodology, indicating that these practices are strong, well embedded, and likely sustainable. The town has policies in place regarding budgeting practices, investments, long-term financial and capital planning, reserves, and debt management. These include minimum reserve levels, multi-year financial and capital budget plans included in the annual operating budget, as well as adopted investment policies and regular monitoring and reporting of financial results.

Addison's overall net debt burden is a moderate 3.6% of 2008 taxable AV. The town's currently outstanding debt all matures by 2021. This issuance, however, will extend through 2033. Depending on growth in taxable assessed value, the tax rate may need to increase in order to cover the higher debt service requirement, which increases to \$6.2 million in fiscal 2012 from \$4.7 million in fiscal 2008. The town is using proceeds for an economic development project designed to replace some older multifamily units. Additional debt may be issued in connection with the project if certain milestones are met by the developer. The town also can issue additional GO bonds previously authorized by the voters. About \$10.8 million of authorized bonds remain available for street and streetscape improvements.

Outlook

The stable outlook reflects our expectation that the town's sound financial management practices, including long-term planning and policy to maintain very strong reserves, will offset the inherent risks associated with the economic base's concentration among commercial property, as well as the town's relatively higher vulnerability to macroeconomic fluctuations.

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