

Memorandum

Memorandum No: 24-130

Date: August 9, 2024
To: Honorable Mayor and City Council
From: Ryan Henderson, City Manager 
Re: Moody's Investor Service Ratings Release

On August 2, 2024, Moody's Investors Service (Moody's) assigned 'Aa2' ratings to the City of Anna's Combination Tax and Revenue Certificates of Obligation, Series 2024 and affirmed the city's Aa2 issuer and outstanding General Obligation Limited Tax (GOLT) rating.

Moody's also upgraded Anna Community Development Corporation's Sales Tax Revenue Bonds, Taxable Series 2016 from Aa3 to Aa2. The CDC's upgrade to Aa2 was due in part to strong growth in sales tax collections as well as the debt service on the bonds being low.

Key indicators that factored into the credit ratings were financial performance, economic performance, leverage and fixed costs. The Aa2 issuer rating reflects the city's growing residential development and location proximity to Dallas, population growth, strong economic profile and stable financial performance. Additional strengths were the growing tax base and the strong revenue growth of Anna. Between 2020 and 2023, the US Census Bureau indicated that Anna's population grew by 58.3%, which was the 6th highest growth rate for cities of 20,000 or more.

The affirmed rating emphasizes the City's overall credit profile and its solid growth which is expected to continue in the future. Please find the attached Moody's Ratings Credit Opinion.

Attachments:

Exhibit I – Moody's Ratings Credit Opinion

c: Aimee Ferguson, Finance Director
Taylor Lough, Assistant City Manager
Greg Peters, Assistant City Manager
Management Team

CREDIT OPINION

2 August 2024



Send Your Feedback

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City of Anna, TX

Update following upgrade of sales tax debt to Aa2

Summary

The [City of Anna, TX's](#) (Aa2) credit profile benefits from its strong economic profile and stable financial performance, which mitigates the recent increase to the leverage profile. Adjusted resident income comprises 120.6% of the US median and full value per capita is solid. The city's advantageous location north of [Dallas, TX](#) (A1 stable) continues to drive residential development, which is expected to continue commensurate with population growth in the region. The city benefits from stable, though below median available fund balance that makes up 27.5% of revenue at fiscal 2023 year-end (September 30). However, the liquidity ratio is stronger at 74.2%, and reflects the resources available for capital outlay to keep pace with the city's growth.

The city's leverage is slightly elevated, and anticipated to grow to nearly 285% of budgeted fiscal 2024 revenue, when including the Series 2024 certificates of obligation (COs). The city anticipates approaching voters for authorization to issue general obligation debt, which will keep the city's leverage elevated. The [Anna Community Development Corporation's](#) outstanding sales tax bonds benefit from the sales and use taxes' broad revenue base that will continue to provide strong coverage of over 4x maximum annual debt service, as the city has no additional sales tax revenue debt plans. increases in sales tax collections driven by ongoing economic development. Maximum annual debt service (MADS) coverage increased to a very strong 8.2x in fiscal 2023. Further growth in MADS coverage is anticipated based on strong growth in collections.

On August 2, 2024, we upgraded Anna Community Development Corporation's Series 2016 sales tax bonds to Aa2 from Aa3, affirmed the city's Aa2 issuer and outstanding General Obligation Limited Tax (GOLT) ratings, and assigned a Aa2 to the city's Series 2024 COs.

Credit strengths

- » Rapidly growing tax base with favorable wealth and income levels
- » Strong trend of revenue growth

Credit challenges

- » Available fund balance below that of similarly rated peers
- » Increasing leverage that will remain above peers because of future capital needs related to rapid growth

Rating outlook

We do not assign outlooks to local government issuers with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Maintenance of a long-term liabilities ratio below 250%, while continuing to address growth-driven capital needs (issuer and special tax ratings)
- » Multi-year trend of growth in available fund balance to comprise more than 35% of revenue (issuer and special tax ratings)

Factors that could lead to a downgrade

- » A trend of structural imbalance that erodes available fund balance below 15% of revenue (issuer and special tax ratings)
- » Debt issuance absent corresponding revenue growth that leads to a long-term liabilities ratio above 300% (issuer and special tax ratings)
- » Substantial decline in revenue leading to MADS coverage below 4x (special tax rating)

Key indicators

Exhibit 1

Anna (City of) TX

	2020	2021	2022	2023	Aa Medians
Economy					
Resident income ratio (%)	132.1%	108.3%	120.6%	N/A	115.2%
Full Value (\$000)	\$1,310,458	\$1,479,329	\$1,775,594	\$2,481,279	\$2,753,876
Population	14,159	16,792	18,585	N/A	22,803
Full value per capita (\$)	\$92,553	\$88,097	\$95,539	N/A	N/A
Annual Growth in Real GDP	-1.2%	7.9%	5.7%	N/A	4.9%
Financial Performance					
Revenue (\$000)	\$34,325	\$59,056	\$57,661	\$82,353	\$49,930
Available fund balance (\$000)	\$11,360	\$17,652	\$13,531	\$22,633	\$27,007
Net unrestricted cash (\$000)	\$21,823	\$26,966	\$34,747	\$61,110	\$36,277
Available fund balance ratio (%)	33.1%	29.9%	23.5%	27.5%	54.0%
Liquidity ratio (%)	63.6%	45.7%	60.3%	74.2%	75.9%
Leverage					
Debt (\$000)	\$56,456	\$63,683	\$62,706	\$171,923	\$35,831
Adjusted net pension liabilities (\$000)	\$8,875	\$13,201	\$13,784	\$8,984	\$55,367
Adjusted net OPEB liabilities (\$000)	\$75	\$119	\$124	\$82	\$5,248
Other long-term liabilities (\$000)	\$351	\$510	\$1,301	\$1,369	\$1,716
Long-term liabilities ratio (%)	191.6%	131.3%	135.1%	221.4%	244.9%
Fixed costs					
Implied debt service (\$000)	\$4,106	\$4,043	\$4,467	\$4,379	\$2,465
Pension tread water contribution (\$000)	\$732	\$888	\$1,112	\$1,420	\$1,563
OPEB contributions (\$000)	\$8	\$8	\$2	\$2	\$178
Implied cost of other long-term liabilities (\$000)	\$19	\$25	\$36	\$91	\$116
Fixed-costs ratio (%)	14.2%	8.4%	9.7%	7.2%	10.7%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Dallas-Fort Worth-Arlington, TX Metropolitan Statistical Area Metropolitan Statistical Area.

Sources: US Census Bureau, Anna (City of) TX's financial statements and Moody's Ratings, US Bureau of Economic Analysis

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody.com> for the most updated credit rating action information and rating history.

Exhibit 2

Anna Community Development Corporation, TX

Anna Community Development Corporation, TX					
Credit Background					
Pledged Revenues	Sales & Use Tax				
Legal Structure					
Additional Bonds Test	1.25				
Open or Closed Lien	Open Lien				
Debt Service Reserve Fund Requirement	Springing DSRF				
MADS Coverage					
Pro forma MADS Coverage (x)	8.17x				
Projected Trend Analysis					
	2019	2020	2021	2022	2023
Estimated Debt Outstanding (\$000)	3,085	2,870	2,645	2,485	2,385
Projected Revenues (\$000)	1,101	1,363	1,758	2,309	2,607
Projected Annual Debt Service Coverage (x)	3.37x	4.18x	5.34x	8.94x	13.44x

Source: Anna (City of), TX's financial statements and Moody's Ratings

Profile

The City of Anna is located in [Collin County](#) (Aaa stable) in northeastern Texas, approximately 40 miles northeast of Dallas. The city is growing and has an estimated population of roughly 27,500. The Anna Community Development Corporation is a component unit of the city that issues sales tax-backed debt and conducts community and economic development initiatives for the city.

Detailed credit considerations

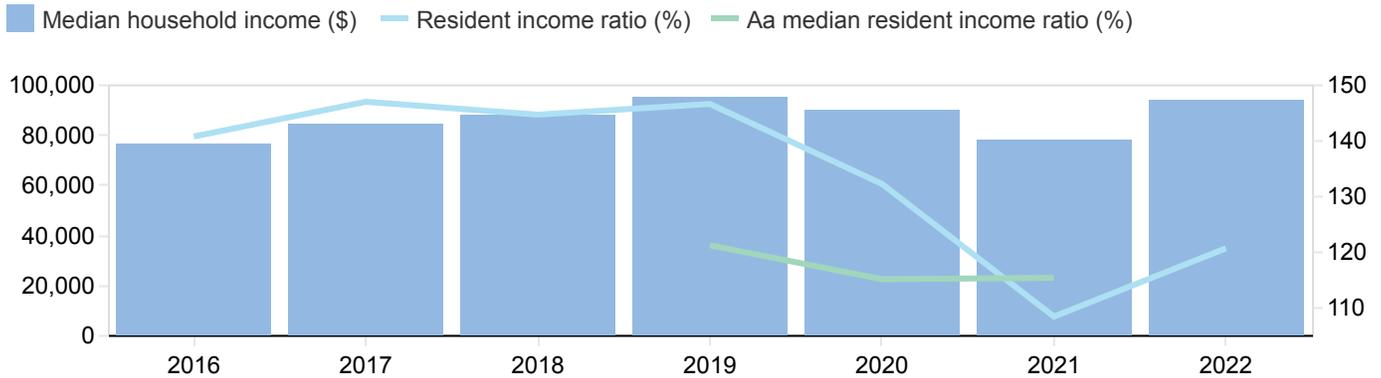
Economic development and homebuilding continue to drive robust economic growth

The city's economy has experienced solid growth, which is expected to continue in the coming years as demand for housing in the area remains strong. The city benefits from its advantageous location near Dallas and is mainly a bedroom community, with single- and multi-family housing comprising nearly 80% of the tax base in fiscal 2024.

The city continues to experience strong housing growth, with management reporting over 1,000 building permits through July 2024, up from 800 in fiscal 2023 (September 30 year-end). The city's tax base has grown upwards of 30% in fiscal 2024 and 2023. Over the past ten years, the tax base grew by 540% to \$3.3 billion in fiscal 2024 from \$510.9 million in fiscal 2015. Adjusted resident income outpaces the nation, making up 120.6% of the US median. Full value per capita is similarly strong at \$175,836. There are eight active property improvement districts (PIDs) throughout the city driving new home building. The city's rapid growth is also reflected in its population increases. According to the US Census Bureau, Anna's population grew by 58.3% between 2020 and 2023; the 6th highest growth rate nationally for cities of 20,000 or more.

Exhibit 3

Resident Income still exceeds the US median, despite recent declines



Source: Moody's Ratings

Financial operations remain healthy, though below the median for the rating category

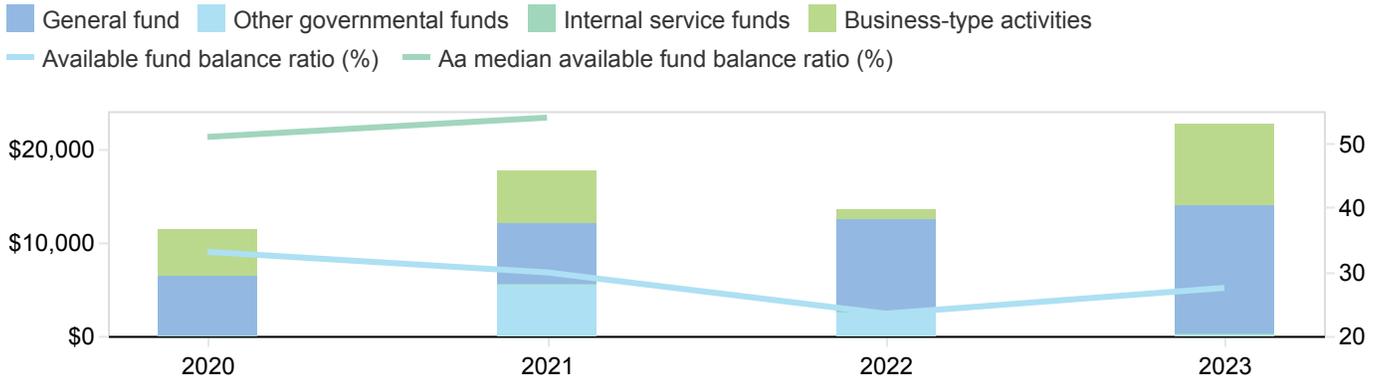
The city's financial performance will remain stable as revenue continues to grow, supported by conservative budgeting across major funds. Management anticipates surplus operations across governmental and business-type activity funds in fiscal 2024, when including a \$2.3 million transfer for capital outlay. The city's main operating funds, the general and utility funds, have posted solid, steady revenue and expenditure growth over the recent past. Property, sales and utility revenue are expected to continue growing, alongside favorable economic conditions in the city. Fiscal 2023 closed with an available fund balance and net unrestricted current assets of \$22.6 million, or a below median 25.3% of revenue.

Revenue and capital assets are bolstered by fees and contributions generated through residential development activity. In fiscal 2023, contributed capital conveyed by developers totaled \$33.8 million. Contributed capital reduces the amount of capital outlay by the city needed to keep pace with new construction. In fiscal 2023, developer fees accounted for \$9 million, or 32% of the city's fiscal 2023 utility fund revenue. Contributions to the PID capital improvements fund generated an additional \$12 million in revenue (26% of governmental fund revenue). The developer-generated revenue lead to significant year-over-year revenue growth between fiscal 2022 and 2023. However, developer revenue sources are used for capital outlay and developer reimbursement, not for operational costs. The city's available fund balance and liquidity are subject to significant fluctuation, if development activity decelerates in the city.

The Anna Community Development Corporation (CDC) is a component unit of the city and the issuer of the city's sales tax revenue debt. The CDC's revenue growth is strong, similar to growth in the city's sales tax collections. Through June of 2024, the CDC has received \$1.8 million in sales tax of the \$2.5 million budgeted. Investment income has been favorable, bringing total revenue through June 2024 to \$2.1 million with three months remaining in the fiscal year.

Exhibit 4

The fund balance ratio remained relatively stable, as revenue grew



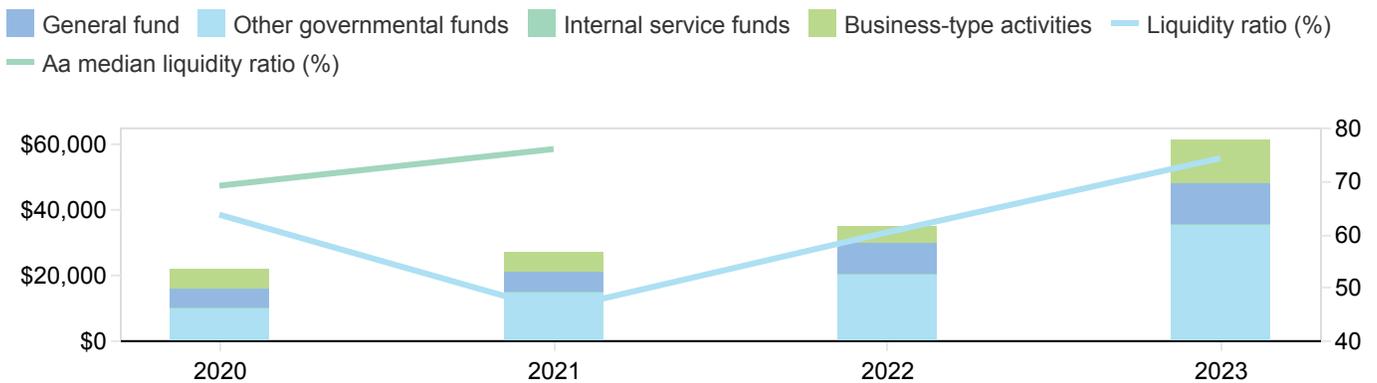
Source: Moody's Ratings

Liquidity

Net unrestricted cash & investments finished fiscal 2023 at \$61.1 million or a strong 74.2% of revenue. However, much of the city's cash is restricted for capital projects. The CDC held \$8.7 million in cash and cash equivalents at fiscal 2023 year-end, restricted for community and economic development.

Exhibit 5

Cash remains strong and near the Aa median



Source: Moody's Ratings

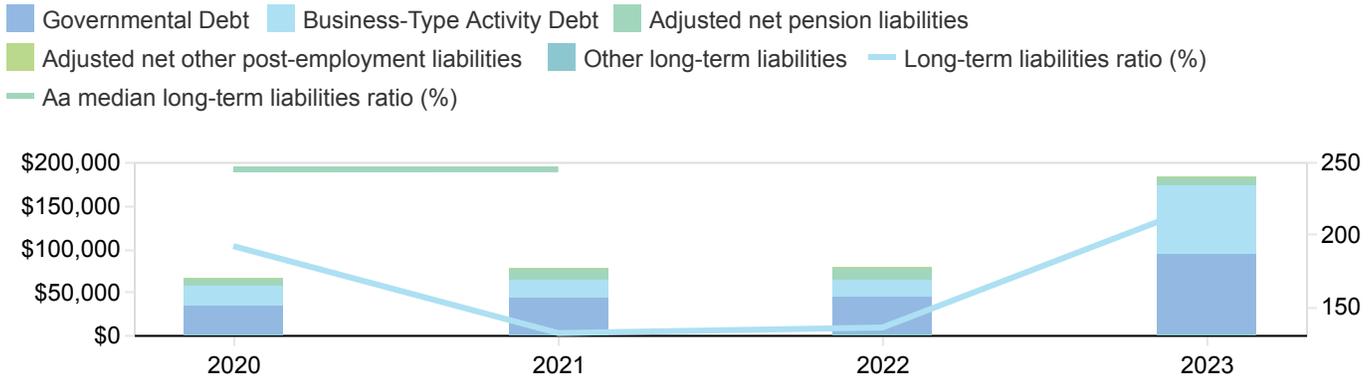
Leverage will remain slightly elevated, though manageable as growth continues

The city's leverage will remain slightly elevated, as continued tax base expansion drives the need for additional capital outlay. Inclusive of the Series 2024 COs, total long-term liabilities will climb to roughly 285% of anticipated fiscal 2024 revenue, from 221% at fiscal 2023 year-end. Management plans to conduct a facilities study, and approach voters for authorization to issue general obligation debt for a police station any other facilities needs that would require bond issuance. Although the debt profile has grown, the city benefits from a modest adjusted net pension liability keeps total long-term liabilities manageable. The debt service and utility funds are primarily responsible for the city's debt service, and have maintained a stable trend of revenue growth over the past several years.

Growth in the Anna CDC's sales tax collections will keep maximum annual debt service (MADS) coverage very strong. The CDC's Series 2016 sales tax revenue bonds have \$1.3 million outstanding. Debt service on the bonds is very low, with maximum annual debt service of \$318,990 in fiscal 2032. At fiscal 2023 year-end, MADS coverage was 8.2x, based on \$2.6 million in sales tax collections for the CDC. The bonds legal provisions are adequate, with a surety funded debt service reserve, and the security features are similar to other Texas issuers of sales tax debt.

Exhibit 6

Long Term Liabilities increased substantially following significant debt issuance in fiscal 2023



Source: Moody's Ratings

Legal security

The city's general obligation debt, including the Series 2024 certificates of obligation, are direct obligations of the city, payable from the levy and collections of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the city. The Series 2016 sales tax revenue bonds are payable from a first lien on the receipts of a 0.75% sales and use tax levied within the city's corporate limits, less any amounts due to the Texas Comptroller of Public Accounts.

Debt structure

All of the city's debt is fixed rate and matures over the long-term (final maturity in fiscal 2049). Principal amortization on the city's GOLT debt is slow with 29.9% of principal repaid within ten years. Principal amortization on the CDC's sales tax debt is more rapid, with 78.2% of principal repaid in ten years.

Debt-related derivatives

The city is not party to any debt-related derivatives or swap agreements.

Pensions and OPEB

Anna's pension profile is low and unfunded liabilities should remain affordable over the next five years supported by annual funding of required contributions. The low pension burden is a credit positive, given the likelihood of additional debt issuance that will drive total long-term liabilities higher. The city participates in the Texas Municipal Retirement System (TMRS), a multi-employer, defined benefit agent retirement plan sponsored by the State of Texas. The city's adjusted net pension liability (ANPL), based on a 5% discount rate, was \$8.9 million at fiscal 2023 year-end, equivalent to a modest 10% of operating revenue. The city's fiscal 2023 \$1.7 million pension contribution was above the \$1.4 million tread water level, the level at which Moody's estimates there will be no increases in unfunded liabilities, under reported assumptions.

The city offers other post employment benefits (OPEB) in the form of a supplemental death benefit, through TMRS. The costs and liability associated with the plan are minimal. The city had an adjusted net OPEB liability of \$82,000, based on a 5% discount rate.

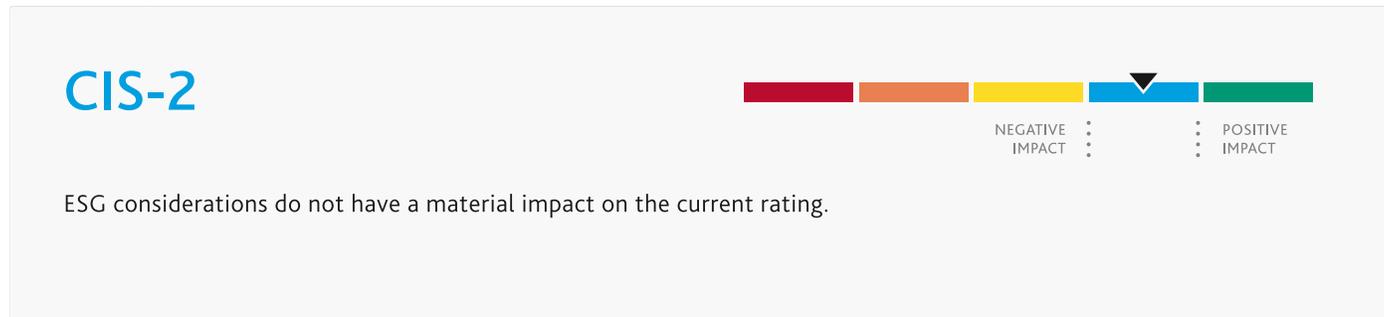
Total fixed costs for fiscal 2023 including debt service, pension contributions and OPEB accounted for a low 7.2% of total operating revenue. Fixed costs are primarily driven by the city's debt.

ESG considerations

Anna (City of) TX's ESG credit impact score is CIS-2

Exhibit 7

ESG credit impact score



Source: Moody's Ratings

The City of Anna, TX's credit impact score is **CIS-2** reflecting relatively low exposure to environmental and social risks alongside the city's good governance.

Exhibit 8

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Anna, TX's overall environmental issuer profile score is **E-2** reflecting relatively low exposure to environmental risks across all categories including physical climate risk, carbon transition, water management, natural capital and waste and pollution.

Social

Anna, TX's social issuer profile score is **S-2** reflecting strong demographic trends and steady labor and income. Educational attainment levels are in line with similarly sized cities and housing is relatively affordable in the area. The city does not report any challenges related to health and safety or access to basic services.

Governance

Anna TX's solid governance issuer profile score, **G-2**, reflects strong institutional structure and demonstrated policy credibility and effectiveness. Budget management strategies are sound. Transparency and disclosure is in line with peers evidenced by a steady history of the timely release of budgets and audited financial statements.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 9

Anna (City of) TX

	Measure	Weight	Score
Economy			
Resident income ratio	120.6%	10.0%	Aaa
Full value per capita	175,836	10.0%	Aa
Economic growth metric	2.0%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	27.5%	20.0%	Aa
Liquidity ratio	74.2%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	221.4%	20.0%	A
Fixed-costs ratio	7.2%	10.0%	Aaa
Notching factors			
Potential for significant change in leverage	0.5		
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aa2

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Dallas-Fort Worth-Arlington, TX Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Anna (City of) TX's financial statements and Moody's Ratings

Appendix

Exhibit 10

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

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