MOODY'S RATINGS

CREDIT OPINION
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City of College Station, TX

Update to credit analysis

Summary

The City of College Station, TX's (Aa1 stable) credit profile benefits from a large and expanding economy that is anchored by Texas A&M University's System, TX's (Aaa stable) flagship campus as well as stable operations highlighted by above average reserves and liquidity. The city's resident income and full value per capita are below average for the rating category, however, these factors are mitigated by the economic stability of Texas A&M University's roughly 77,500 students and economic diversification in recent years that has resulted in modest improvement in both metrics. Positively, the city's leverage and fixed costs are below national peers despite recent issuances to address growth related infrastructure needs.

Credit strengths

» Large and expanding economy anchored by Texas A&M University System's flagship campus

» Stable operations highlighted by above average reserves and liquidity

» Flexibility under statutory property tax caps

Credit challenges

» Economy highly concentrated in education

» Infrastructure and transportation challenges derived from growth of university

» Resident income and full value per capita below-average for the rating category

Rating outlook

The stable outlook reflects the expectation that the city's economy will continue to grow, fueled by demand from population growth and strong institutional presence. Financial operations will remain strong backed by prudent fiscal management that includes conservative budgeting practices.

Factors that could lead to an upgrade

» Continued economic growth and diversification resulting in material strengthening of resident income to 100% of the nation and full value per capita of $150,000

» Moderation of long-term liabilities ratio less than 150% of revenue

Factors that could lead to a downgrade

» Trend of structural imbalance resulting in a weakened available fund balance and liquidity below 35% of revenue

» Increase in long-term liabilities ratio to above 350% of revenue and fixed costs in excess of 25% of revenue

» Weakened economic profile, evidenced by a sustained trend of underperforming GDP growth compared to the US or declining assessed value

Key indicators

Exhibit 1
College Station (City of) TX

	2020	2021	2022	2023	Aa Medians
Economy					
Resident income ratio (%)	76.7%	76.4%	75.3%	N/A	115.2%
Full Value ($000)	$9,921,268	$10,071,009	$10,483,884	$11,964,154	$2,753,876
Population	115,802	116,276	120,451	N/A	22,803
Full value per capita ($)	$85,674	$86,613	$87,039	N/A	N/A
Annual Growth in Real GDP	-0.1%	4.5%	2.4%	N/A	4.9%
Financial Performance					
Revenue ($000)	$277,818	$291,508	$334,327	$356,098	$49,930
Available fund balance ($000)	$206,219	$177,850	$233,738	$307,158	$27,007
Net unrestricted cash ($000)	$305,768	$288,573	$367,156	$432,524	$36,277
Available fund balance ratio (%)	74.2%	61.0%	69.9%	86.3%	54.0%
Liquidity ratio (%)	110.1%	99.0%	109.8%	121.5%	75.9%
Leverage					
Debt ($000)	$399,948	$430,850	$476,906	$480,823	$35,831
Adjusted net pension liabilities ($000)	$237,308	$300,180	$263,635	$154,142	$55,367
Adjusted net OPEB liabilities ($000)	$2,958	$4,639	$2,102	$1,576	$5,248
Other long-term liabilities ($000)	$6,950	$6,897	$7,603	$13,233	$1,716
Long-term liabilities ratio (%)	232.9%	254.7%	224.4%	182.5%	244.9%
Fixed costs					
Implied debt service ($000)	$27,122	$28,641	$30,220	$33,307	$2,465
Pension tread water contribution ($000)	$8,472	$7,197	$7,085	$6,114	$1,563
OPEB contributions ($000)	$650	$2,303	$1,345	$1,182	$178
Implied cost of other long-term liabilities ($000)	$513	$498	$484	$531	$116
Fixed-costs ratio (%)	13.2%	13.3%	11.7%	11.6%	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 College Station-Bryan, TX Metropolitan Statistical Area Metropolitan Statistical Area.
Sources: US Census Bureau, College Station (City of) TX's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of College Station is located in Brazos County, in the middle of a triangle bounded by the cities of Dallas (A1 stable)/Fort Worth (Aa3 stable), Houston (Aa3 stable), and San Antonio (Aaa stable). According to 2022 American Community Survey (ACS) data, the city's estimated population is over 120,000 and management estimates the current population is over 128,000.

Detailed credit considerations

Economy: diversification to continue though Texas A&M will remain economic anchor

College Station's economy will continue to grow over the next several years though Texas A&M University will remain the economic anchor of the region. Significant development continues at Texas A&M University in support of the university's mission of teaching and research, with roughly $1.3 billion in approved and proposed projects at the College Station campus through 2027. After a brief slowdown in fiscal 2023, single and multi-family residential housing development has remained steady in fiscal 2024 though the value of permits has continued to rise. Economic diversification in recent years is expected to continue as Fujifilm Diosynth Biotechnologies

Texas LLC, an advanced therapy and vaccine manufacturing company, recently broke ground on a $300 million, 150 employee expansion that is expected to be complete in late 2024 or early 2025.

Still, the city's economy is largely dependent on education. Roughly 50% of the city's population is employed by educational institutions including Texas A&M, school districts in Bryan and College Station, and Blinn College (A1 stable). The city's resident income (75.3% of the US) and full value per capita ($118,279) are both below the national medians for the rating category. This weakness is offset by the material institutional presence of the university and the economic strength of the student population. Several off-campus student residences have been constructed recently with rent that is above average for the area.

Additionally, the city has experienced significant retail, restaurant, and hotel development in recent years and this development continues throughout 2024. Positively, the city's pace of economic growth has exceeded the US average by 0.9% over the past five years, resulting in modest improvements to both resident income and full value per capita. The preliminary assessed valuation for fiscal 2025 is $14.8 billion - a roughly 5% increase from the prior year. The city's May 2024 unemployment rate of 3.0% was below both state (3.8%) and national (3.7%) levels for the same period.

Exhibit 2
Resident Income
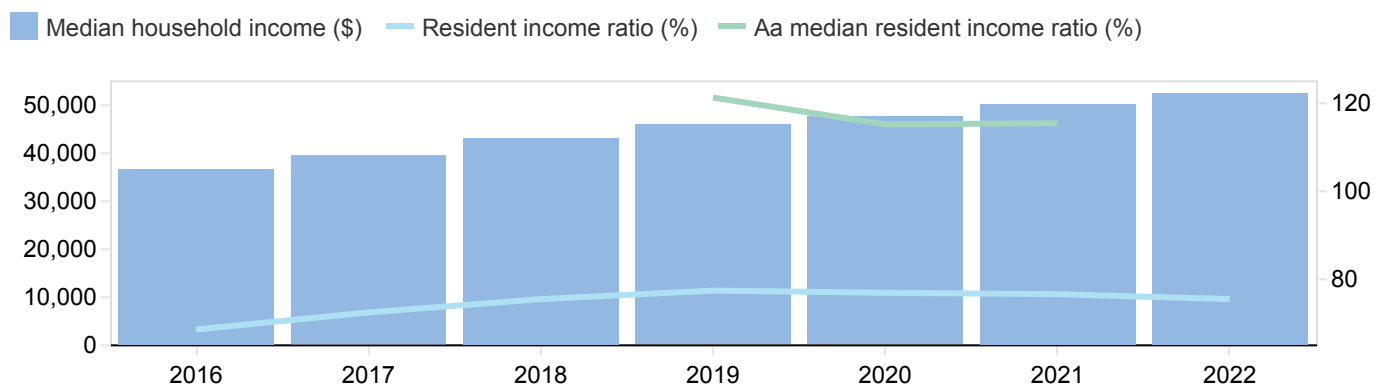
Source: Moody's Ratings

Financial operations: strong financial profile to continue driven by ongoing economic growth and conservative budgeting practices

The city's financial profile will continue to benefit from management's commitment to healthy reserves and conservative budgeting practices that typically result in favorable operating variances. Naturally, economic development has increased city revenue across the board. About 44% of the city's operations are captured in governmental funds which are well positioned to support operations in the event of a material financial disruption or emergency; the remaining 56% are business-type activities, which consists primarily of the city's combined utility enterprise.

The city closed fiscal 2023 with roughly $155 million in available governmental fund balance and $152 million in net unrestricted current assets for its business-type activities. Combined, the city closed with $307 million in operating reserves, representing a very strong 86% of revenue.

The fiscal 2024 budget included around $4 million use of reserves for one-time expenditures, however, stronger property and sales tax collections are likely to result in a surplus of around $5 million in the general fund as the city utilized remaining ARPA funding to maintain certain staff positions, improving the bottom line. The preliminary fiscal 2025 budget reflects about a $3 million use of general fund balance. However, management tends to budget fairly conservatively and actual results generally outpaces budgeted expectations. Management is likely to utilize excess debt service reserves in future years to manage the city's tax rate as issuance for capital improvements occurs. Fiscal 2024 projections indicate a roughly $900,000 reduction of the debt service fund balance. The city is also contesting a ruling from the Public Utility Commission reflecting the city's electric utility overcharged its transmission fees by

$26.5 million. Despite the potential repayment, we ultimately anticipate the city's operating reserve position will remain healthy and well in excess of the Aaa cutoff of 35% of operating revenue.
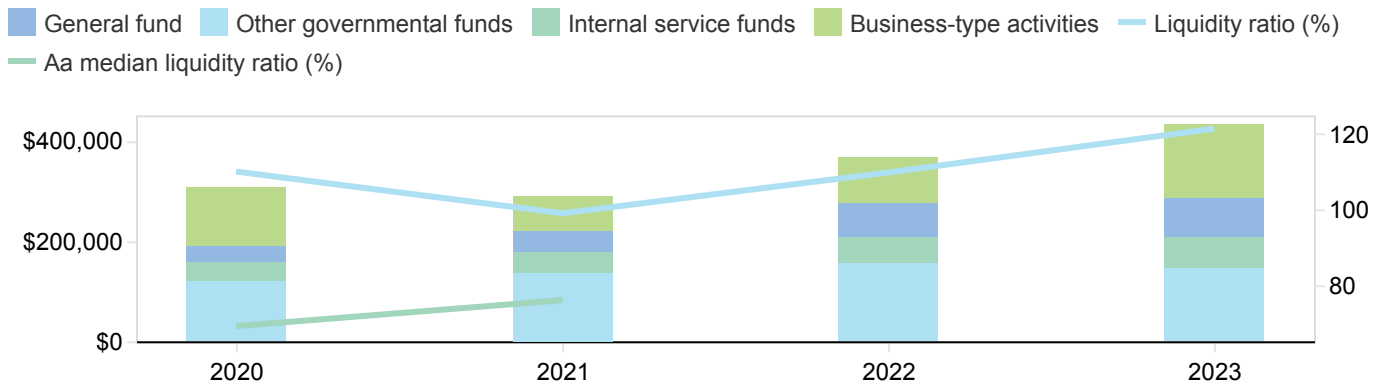
Exhibit 3
Fund Balance

Legend:
- General fund
- Other governmental funds
- Internal service funds
- Business-type activities
- Available fund balance ratio (%)
- Aa median available fund balance ratio (%)
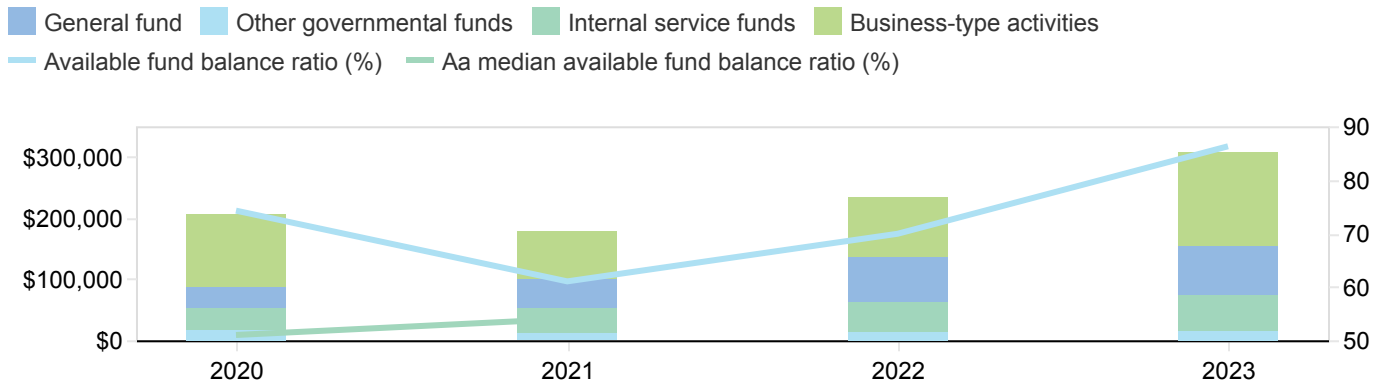
Source: Moody's Ratings

Liquidity

The city closed fiscal 2023 with $433 million in net unrestricted cash and investments across both governmental funds and business-type activities, representing a very strong 122% of revenue. The difference between the city's unrestricted cash and investments and operating reserves is largely unspent bond proceeds in the street fund and the recognition of federal relief cash designated as unearned revenue.

Exhibit 4
Cash

Legend:
- General fund
- Other governmental funds
- Internal service funds
- Business-type activities
- Liquidity ratio (%)
- Aa median liquidity ratio (%)

Source: Moody's Ratings

Leverage: favorable leverage and fixed costs expected to remain even with near term issuance plans

College Station's leverage is below national peers in the rating category and expected to remain manageable over the coming years. The city's five-year capital improvement plan calls for about $350 million in debt funded capital expenditures through 2029 - primarily in the city's utility funds. The city reviews its utility rates annually and increased its electric utility rate 10% in fiscal 2023 (no increase to water or wastewater rates); the electric utility comprises nearly 70% of the revenue in the city's combined utility enterprise. Governmental activities account for 58% of the city's total leverage and about 74% of the city's outstanding liabilities are attributable to debt.

Positively, the city's adjusted pension and OPEB liabilities are a smaller component of its leverage relative to peers due to the city's prioritization of these obligations. The city's adjusted net pension liability represents 24% of the city's leverage while adjusted net OPEB liabilities represent 0.2%.

The city's adjusted fixed costs are also relatively low at less than 12% of revenue, and, like leverage, in line with national Aa1 peers. Fixed costs are expected to remain manageable given the likelihood economic expansion continues to drive operating revenue growth.

Fixed costs are primarily comprised of annual debt service payments, which account for about 81% of the total, while pension "tread water" equals 15%.

Exhibit 5
Total Primary Government - Long Term Liabilities

Governmental Debt ▪ Business-Type Activity Debt ▪ Adjusted net pension liabilities ▪ Adjusted net other post-employment liabilities ▪ Other long-term liabilities ▪ Long-term liabilities ratio (%) ▪ Aa median long-term liabilities ratio (%)
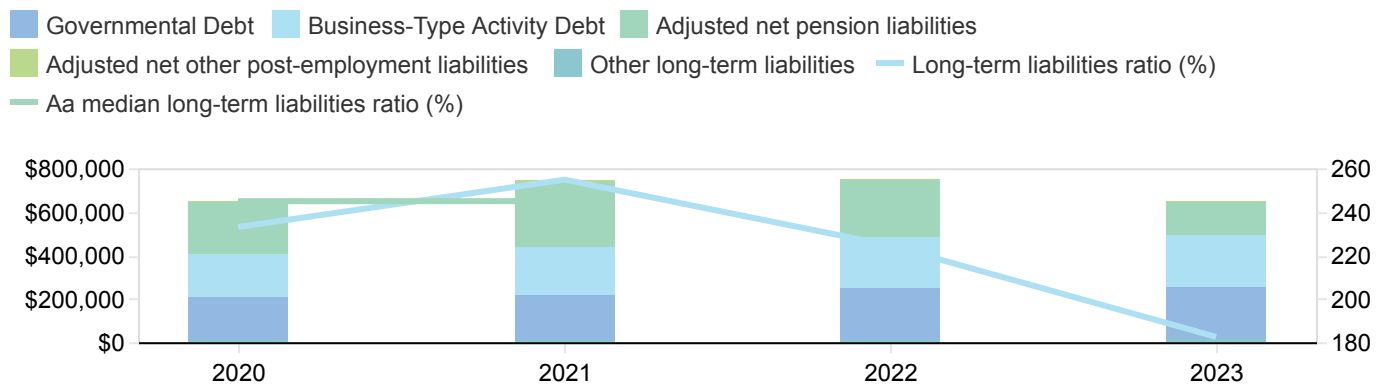
Source: Moody's Ratings

Legal security
The general obligation bonds and certificates of obligation constitute direct obligations of the city payable from an annual direct and continuing ad valorem tax, levied on all taxable property within the limits prescribed by law. The certificates are additionally payable from a subordinate lien and pledge of $1,000 of surplus revenue of the city's utility system.

Debt structure
All of the city's debt is fixed rate and matures over the long-term (final maturity in fiscal 2044). Principal amortization is average with roughly 63% of principal repaid within ten years.

Debt-related derivatives
The city is not party to any interest rate swaps or other derivative agreements.

Pensions and OPEB
The city participates in the Texas Municipal Retirement System (TMRS), a multiple-employer retirement plan. The city's contribution to TMRS exceeded Moody's calculated "tread water" by nearly 98% in fiscal 2024, or about $6 million. The city's actuarially determined contribution level to TMRS in fiscal 2023 is 12.75% of payroll, but the city funded the contribution at 17%. In fiscal 2024, the city expects to fund the contribution at 15.25%. Strong investment returns materially reduced the city's liability in fiscal 2022 and additional contributions and the city's focus to reduce the liability are likely to make meaningful contributions over the next several years.

The city offers other post employment healthcare benefits (OPEB). The city's OPEB costs are funded through contributions to an irrevocable trust created in fiscal 2017. With the establishment of the trust, the city has pre-funded and can allocate funds for the express purpose of meeting future OPEB costs. The city fully funded its actuarially determined OPEB liability in fiscal 2022 (as of the latest measurement date of December 31, 2021). The city will continue to manage its OPEB expense to maintain at least a 95%

funded ratio. When the ratio is achieved, the city will maintain the ratio and direct unused resources toward reducing the city's pension liability.

ESG considerations

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

Exhibit 6
ESG credit impact score

CIS-2

ESG considerations do not have a material impact on the current rating.

NEGATIVE IMPACT

POSITIVE IMPACT
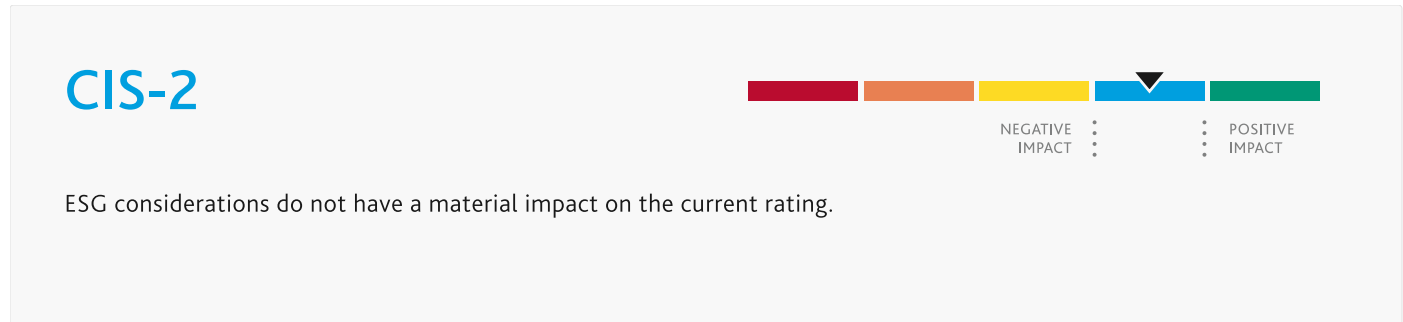
Source: Moody's Ratings

The City of College Station, TX's credit impact score is **CIS-2**, reflecting that ESG risks are not material to the current rating. The city has low exposure to environmental and social considerations and very strong governance.

Exhibit 7
ESG issuer profile scores

ENVIRONMENTAL
E-2

SOCIAL
S-2

GOVERNANCE
G-1
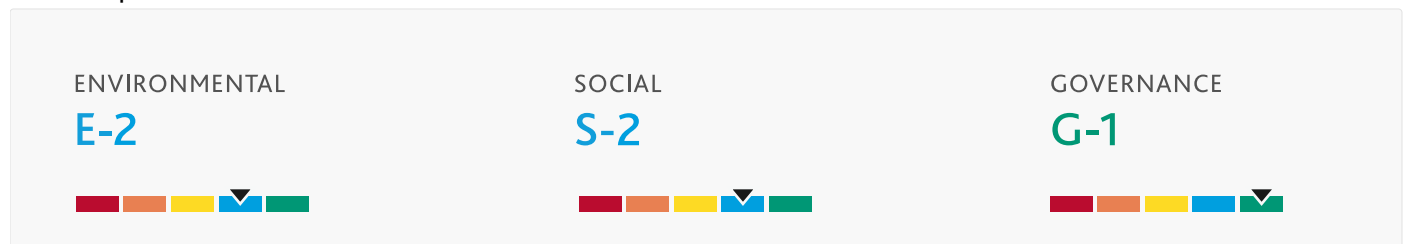
Source: Moody's Ratings

Environmental
College Station, TX's 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
The city's social issuer profile score is **S-2**, reflecting strong demographic trends and steady labor and income. Educational attainment levels are high, a benefit gained by its location serving as home to the flagship campus of Texas A&M. Housing is relatively affordable in the area and the city does not report any challenges related to health and safety or access to basic services.

Governance
College Station's very strong governance profile supports its rating, as captured by a positive governance issuer profile score of **G-1** and reflects both strong institutional structure and demonstrated policy credibility and effectiveness. Transparency and disclosure is in line with peers and budget management strategies are strong with actual performance typically favorably outpacing budgeted expectations.

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 8
College Station (City of) TX

	Measure	Weight	Score
Economy			
Resident income ratio	75.3%	10.0%	Baa
Full value per capita	118,279	10.0%	Aa
Economic growth metric	0.9%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	86.3%	20.0%	Aaa
Liquidity ratio	121.5%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	182.5%	20.0%	Aa
Fixed-costs ratio	11.6%	10.0%	Aa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			**Aa1**

The Economic Growth metric cited above compares the five-year CAGR of real GDP for College Station-Bryan, TX Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.
Sources: US Census Bureau, College Station (City of) TX's financial statements and Moody's Ratings

Appendix

Exhibit 9
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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