

CREDIT OPINION

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City of Temple, TX Tax Increment Reinvestment Zone

Update to credit analysis

Summary

The [City of Temple, TX Tax Increment Reinvestment Zone's](#) (Baa2 stable) credit profile reflects solid growth of incremental value stemming from ongoing development and will increase taxpayer diversity but will remain concentrated among top taxpayers within the zone. The taxable value growth will continue to grow incremental revenue while also maintaining solid maximum annual debt service (MADS) coverage. Still, concentration of the top ten taxpayers persists, making up 60% of fiscal 2026 incremental assessed valuation (AV). The top two taxpayers are gas-fired power plants, and have experienced financial distress over the last decade, though the taxable values have remained stable and officials report no negative impact of tax revenue receipts or the TIRZ's ability to pay debt service.

The taxpayer concentration also heightens the potential for volatility, particularly against a backdrop of a low ratio of incremental values to total AV. The three-year revenue growth trend of 22.4% is very strong and maximum annual debt service (MADS) coverage is expected to hover around 2.5x post-issuance and somewhat offset the weaker aspects of the credit profile. Legal provisions continue to provide adequate leverage restraints and liquidity. The credit profile also benefits from a conservative management team that maintains healthy reserves.

Credit strengths

- » Favorable location between Austin and Waco
- » Ongoing development within the Tax Reinvestment Zone

Credit challenges

- » High taxpayer concentration including two gas-fired power plants that represent 37.3% of the incremental taxable value that drive's the zone's revenue
- » Small ratio of incremental values to total AV
- » Somewhat recent foreclosure of the largest taxpayer heightens the potential for incremental value volatility

Rating outlook

The stable outlook reflects our expectation that top taxpayers have stabilized following the sale of the Panda I power plant to BKV-BPP Power LLC (Panda I) and Panda II power plant to Panda Temple Power (Panda II), the top two taxpayers in the zone. Ongoing development will continue to provide incremental value and revenue growth and provide increasing stability against the elevated taxpayer concentration risk.

Factors that could lead to an upgrade

- » Sustained improvement of MADS coverage above 3x
- » Sustained diversification of the tax base as evidenced by top ten taxpayers making up less than 45% of incremental AV
- » Growth in the ratio of incremental AV to total AV to near 85%

Factors that could lead to a downgrade

- » Additional debt issuances or incremental value declines that significantly hamper MADS coverage below 1.3x
- » Loss of a major taxpayer
- » Reduced pledged revenue from overlapping taxing entities

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Key indicators

Temple, TX	
Project Area Characteristics / Tax Base	
MFI as a % of US	86.0%
Incremental (Cumulative) AV (USD Millions)	1,592.27
Taxpayer Concentration (Top Ten as a % of Incremental AV)	60.5%
Ratio of Incremental AV to Total AV	81.3%
Financial Strength	
Maximum Annual Debt Service Coverage	2.48
3-Year CAGR of Tax Increment Revenue	22.4%
Legal Structure	
Additional Bonds Test	1.5

Top ten taxpayers AV as a percent of incremental AV is calculated based on total annual increment, since AV varies by participating taxing unit. MADS coverage is based on fiscal 2025 revenue.

Source: Temple (City of), TX audited financial statements, US Census Bureau, Moody's Ratings

Profile

The City of Temple is located 60 miles north of Austin in the northeastern portion of Bell County, at the junction of Interstate Highways 35 and 14, State Highways 36, 53 and 95 and several farm-to-market roads. The 2020 population increased 15.9% since 2010. The city is an important regional medical center, with three major medical facilities including Baylor Scott and White.

The tax increment zone was created in 1982, consisting of 1,943 acres, for the purpose of promoting development and re-development in the zone. Total area today is 14,872 acres. The duration of the zone runs through 2062 (TIRZ debt matures in 2051). Incremental taxable value within the zone includes 2 gas fired power plants, Panda I and Panda II which account for 19.1% and 18.2% of the zone's tax revenue, respectively.

Detailed credit considerations

Project area characteristics and tax base: concentration among top taxpayers with history of bankruptcy and foreclosure highlights credit risk

The zone's revenue generating base will continue to grow with management reporting a number of new developments, and expansions of existing firms. However, taxpayer concentration and a small ratio of incremental assessed values to total valuation will remain credit challenges. The top two taxpayers in the zone are two gas-fired power plants that make up a combined 37% of tax revenue (top ten taxpayers make up 60.5% of the fiscal 2026 tax levy). Within the past ten years, Panda I has filed for bankruptcy, while Panda II filed for bankruptcy, but the filing was dismissed and creditors foreclosed on the plant. Each plant has since been sold, and incremental values have not declined since fiscal 2017 following the Panda I bankruptcy and subsequent sale. Still, the reliance on two power plants for over one-third of revenue is a persistent risk. Continued diversification of top taxpayers in the zone could benefit the credit profile.

Development is centered partly on logistics, while Meta Platforms, Inc. (Aa3 stable) is constructing several data center structures in the northern portion of the zone. Following expansion of zone boundaries in 1999 and 2010, the zone covers much of the city's downtown area, encompassing 13.5% of the city's fiscal 2026 AV, a slight decline from 14% in 2022. The ratio of incremental AV to total AV is low at 78.8% which implies potential volatility in increment revenues and amplifies the effect of overall tax base declines on incremental values. Median family income for the city is below the national median at 86%.

Financial strength and debt service coverage: solid debt service coverage and growing revenue provide stability against taxpayer concentration

The zone's debt service coverage will remain solid even amidst the current issuance, as property tax abatements on the two power plants expire in 2026 and 2027, providing access to new property tax revenue which will strengthen coverage. When incorporating the Series 2026 bonds, MADS coverage is equivalent to about 2.5x fiscal 2025 increment revenue which totaled about \$37.1 million. Incorporating fiscal 2026 estimated tax increment revenue of \$43.0 million, MADS coverage increases to about 2.9x. Under a stressed

scenario where the two power plants are unable to pay property taxes, all-in debt service coverage, which includes portions of city-issued general obligation debt supported by the zone, MADS coverage would equate to just above 1x coverage, barring other negative shocks to the tax base. However, the power plants have exhibited stable taxable values over the last several years and are expected to remain stable.

Debt service on the bonds (including the Series 2026 bonds) increases annually to \$14.9 million, and declines beginning in 2039 to about \$12.9 million, and falls to \$9.6 million in 2042 until final maturity in 2051. Positively, using audited fiscal 2025 figures, tax revenue is very strong at 22.4%, while, the fiscal 2026 tax levy would maintain the strong 22.5% revenue growth, indicative of the significant development occurring in the zone that is translating into revenue growth.

Liquidity

The Reinvestment Zone Fund closed fiscal 2025 with a substantial unrestricted investment position of \$22.2 million, equivalent to 60% of fiscal 2025 tax increment revenue, which provides additional cushion against valuation or revenue shocks. TIRZ revenue also pays for a self-supporting portion of the city's general obligation debt. While the city's general obligation debt is not secured by tax increment revenue and the TIRZ bondholders have a priority claim on the revenue, this practice could reduce available liquidity in case tax increment revenue in one year is insufficient to pay self-supporting debt service.

Debt and legal covenants: legal provisions provide adequate leverage constraints

Legal provisions are satisfactory. The bonds have an open lien but an additional bonds test of 1.5x MADS. A debt service reserve is funded at MADS.

Legal security

The bonds are payable from a first lien on funds deposited into the Tax Increment Account held by the City of Temple, TX. The city has agreed by ordinance to deposit Tax Increment from the seven participating units into the account, which is generated from property taxes levied on incremental assessed valuation in the development zone above the base amount of \$366 million. Additional security is provided by a debt service reserve fund sized at maximum annual debt service.

Debt structure

The city's bonds are fixed rate. Debt service requirements gradually increase to \$14.9 million in 2033, remaining fairly level through 2038, and gradually decline thereafter until final maturity in 2051.

Debt-related derivatives

The city is not a party to any debt-related derivative agreements.

Pensions and OPEB

Pension and other post-employment benefits (OPEB) liabilities are not a factor in our assessment of tax increment revenue bond credit quality. The city's unfunded pension liability is moderate.

ESG considerations

Environmental

The local government sector generally has low exposure to environmental risks. The city's exposure to rising environmental risks is moderate, with some exposure to rising heat and water stress, along with extreme rainfall events. Favorably, federal and state governments help mitigate these exposures. The US government continues to provide substantial assistance via its Federal Emergency Management Agency (FEMA) in the wake of large storms. The State of Texas has taken action to help mitigate water stress risk within its borders by issuing general obligation debt through the Texas Water Development Board (TWDB) since the 1950s to finance a variety of water conservation and supply projects.

Social

Social considerations are material to most credits, with factors such as demographics, labor force, income and education influencing the economic, demographic, financial and leverage trends. The city's somewhat lower income indices are reflected in its rating, but are moderated by the city's lower cost of living reflected in its median home value.

Governance

Governance is an important consideration for all municipal credits and that remains true for Temple, which benefits from strong oversight and planning practices. The city's financial policies are sound, reflected in the strong operating trends over the last six years that have resulted in stable reserves. The city also demonstrates good governance by multiyear capital and financial planning.

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