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S&P: Dallas GO Debt Rating Lowered to 'AA' on Rising Pension Costs.

DALLAS (Standard & Poor's) Nov. 4, 2015 — Standard & Poor's Ratings Services said today it lowered to 'AA' from 'AA+' its long-term rating and underlying rating (SPUR) on Dallas' parity general obligation (GO) bonds. We also assigned our 'AA' rating to the city's series 2015 GO refunding and improvement bonds. The outlook is stable.

In addition, Standard & Poor's lowered to 'A' from 'A+' its long-term rating and SPUR on the Downtown Dallas Development Authority's (DDDA) tax increment contract revenue bonds, issued on behalf of the city of Dallas. We also lowered to 'A' from 'A+' the rating on the Dallas Convention Center Hotel Development Corp.'s series 2009A, B, and C hotel revenue bonds, issued on behalf of Dallas. The outlook for both ratings is stable. (For more information, see the summary analyses on DDDA and Dallas Convention Center Hotel Development Corp. published Nov. 4, 2015.)

Standard & Poor's also affirmed its 'A-1+' short-term rating on Dallas' series 2010A and C GO commercial paper notes. The rating reflects our view of the city's strong general creditworthiness and liquidity.

"The GO debt downgrade is due to the city's rising pension liabilities and lack of a sufficient plan to address them in the near term," said Standard & Poor's credit analyst Jennifer Garza. "The stable outlook reflects our view of the city's consistent financial performance and economy, which is supported by very strong management."

The pledge of an ad valorem property tax, limited to \$2.50 per \$100 of assessed valuation (AV) by state law, secures the GO bonds. In our opinion, the city has ample flexibility under the tax cap given its current tax rate of 79.7 cents per \$100 of AV.

The GO debt rating reflects the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area;
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level;
- Strong budgetary flexibility, with an available fund balance in fiscal 2014 of 14.4% of operating expenditures;
- Very strong liquidity, with total government available cash of 46.0% of total governmental fund expenditures and 1.8x governmental debt service, and access to external liquidity we consider exceptional;
- Very weak debt and contingent liability position, with debt service carrying charges of 14.6% of expenditures and net direct debt that is 145.3% of total governmental fund revenue, as well as a large pension and other postemployment benefit liability and the lack of a plan to sufficiently address the obligation; and

- Strong institutional framework score.