

Memorandum



CITY OF DALLAS

DATE June 2, 2023

TO Honorable Mayor and Members of the City Council

SUBJECT **Moody's Investor Service Releases Update to Credit Analysis of City's General Obligation and Waterworks and Sewer System Ratings– INFORMATION**

Moody's Investors Service (Moody's) recently released updates to the credit analysis of the City's General Obligation (A1 stable) and Dallas Water Utilities' (Aa2 stable) ratings. Moody's last affirmed both ratings on August 15, 2022 in an update as part of a statutorily required annual review and affirmed the City ratings applicable to their revised rating methodology for cities and counties on February 9, 2023.

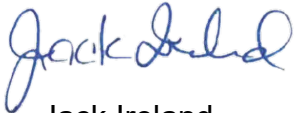
According to Moody's report dated May 18, 2023, the City's general obligation credit profile continues to benefit from "a strong and diverse economy that continues to grow at a pace that exceeds that of the nation," with the expectation that "the economy will remain sound despite some headwinds in the commercial sector, and the tax base will continue to expand (albeit at a slower pace) providing additional property tax revenue that will be needed to cover growing expenses. The financial performance ratios are expected to remain stable given the city's history of conservative budgeting." However, "the city's ability to incorporate rising costs while maintaining structural balance will be a key factor in future reviews, and a failure to address the growing pension liability could lead to negative credit pressure."

For Dallas Water Utilities (the "System"), the Moody's report dated May 18, 2023 considers the "close credit relationship between the City of Dallas and the system, as well as the strong credit fundamentals of the system," noting the healthy asset condition, ample water supply and system capacity with robust and long-range capital planning to access additional water supply and replace aging infrastructure. Moody's outlook of the System reflects the expectation that "favorable demographic trends, strong financial management and strategic planning, and ongoing city council support of rate increases as needed will lead to maintenance of solid liquidity and adequate debt service coverage," and "rising pension costs associated with the Dallas Employees' Retirement Fund, and allocated to the system, will remain a manageable percentage of operating expenses."

The City's Waterworks and Sewer System rating is currently two notches below Moody's highest rating level and is considered to be of high quality and subject to very low credit risk. The City's General Obligation rating is also favorable and is considered an upper-medium investment grade with low credit risk. The affirmed ratings continue to bolster the City's credit profile and are a positive indication of investor reception to the City's credits in a complex market environment.

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Attached are the recent publications of the affirmed City of Dallas obligations. If you have any questions, please contact me or Jenny Kerzman, Assistant Director of Treasury, at jenny.kerzman@dallas.gov or 214-670-3676.



Jack Ireland
Chief Financial Officer

c: T.C. Broadnax, City Manager
Tammy Palomino, Interim City Attorney
Mark Swann, City Auditor
Billerae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Deputy City Manager
Jon Fortune, Deputy City Manager

Majed A. Al-Ghafry, Assistant City Manager
M. Elizabeth (Liz) Cedillo-Pereira, Assistant City Manager
Dr. Robert Perez, Assistant City Manager
Carl Simpson, Assistant City Manager
Genesis D. Gavino, Chief of Staff to the City Manager
Directors and Assistant Directors