

Memorandum



CITY OF DALLAS

DATE May 13, 2019

TO Honorable Mayor and Council Members

SUBJECT **Moody's Investors Service includes Dallas Water Utilities Under Review for Downgrade Following Court Ruling in Puerto Rico - INFORMATION**

Today, Moody's Investor Services (Moody's) has placed seven water and sewer utilities systems, including Dallas Water Utilities, and one special assessment district under review for downgrade. According to Moody's, this action is, "driven by the 3 or 4 notch positive rating differentials between the ratings [of the utility]...and the general obligation or issuer ratings of their associated "parent" local government." Currently, Moody's has assigned Dallas Water Utilities its 'Aa1' rating, three notches higher than the General Obligation rating at 'A1'. Moody's also states that the review will, "consider economic, governance, and financial interdependencies between the affected entities and their "parent" governments, and whether these interdependencies detract from credit quality."

The review will, "consider the implications of recent legal developments in the Puerto Rico (Ca negative) bankruptcy-like proceeding," following the US Court of Appeals for the First Circuit ruling in April. The ruling states that, "the Commonwealth is not required to pay 'special revenue' debt service on Puerto Rico Highways and Transportation Authority (PRHTA) bonds (C negative) during the pendency of the bankruptcy-like proceeding." Moody's contends that, "the uncertainty regarding the interpretation of 'special revenue' resulting from the federal appeals court ruling underscores the importance of the linkage between a local government's general credit quality and that of its enterprises. The ruling has implications even for those entities located outside the 1st Circuit or not currently eligible to file for bankruptcy." The State of Texas falls under the purview of the United States Court of Appeals for the Fifth Circuit.

This notice is not a credit rating decision, but a disclosure from Moody's that a review is taking place. Dallas Water Utilities maintains strong ratings with S&P Global Ratings ('AAA') and Fitch Ratings ('AA+'). The City of Dallas continues to be economically strong, fiscally stable, and a solid investment. I will continue to share with you any further updates or related credit changes.

DATE May 13, 2019

SUBJECT Moody's Investors Service includes Dallas Water Utilities Under Review for Downgrade
Following Court Ruling in Puerto Rico- INFORMATION

Please let me know if you need additional information.



M. Elizabeth Reich
Chief Financial Officer

Attachment

C: T.C. Broadnax, City Manager
Chris Caso, City Attorney (Interim)
Mark Swann, City Auditor
Billerae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizer Tolbert, Chief of Staff to the City Manager
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager
Joey Zapata, Assistant City Manager
Nadia Chandler Hardy, Assistant City Manager and Chief Resilience Officer
Michael Mendoza, Chief of Economic Development and Neighborhood Services
Laila Aleqresh, Chief Innovation Officer
Directors and Assistant Directors

Rating Action: Moody's places 8 ratings under review for downgrade in wake of recent court ruling on special revenue pledges

13 May 2019

New York, May 13, 2019 -- Moody's Investors Service has placed the rating of 7 water/sewer utilities and 1 special assessment district under review for downgrade, affecting approximately \$13.8 billion in outstanding rated debt.

Please click on this link http://www.moody's.com/viewresearchdoc.aspx?docid=PBM_PBM203359 for the List of Affected Credit Ratings. This list is an integral part of this Press Release and identifies each affected issuer.

RATINGS RATIONALE

Today's action is driven by the 3 or 4 notch positive rating differentials between the ratings listed in the attachment above and the general obligation or issuer ratings of their associated "parent" local government. These large differentials potentially over-weight the standalone credit strength of the utility enterprise or special assessment district. The review affects both senior and subordinate lien debt (if any) under review, given the strong relationships among these different security pledges. The review will consider economic, governance, and financial interdependencies between the affected entities and their "parent" governments, and whether these interdependencies detract from credit quality.

Our review will consider the implications of recent legal developments in the Puerto Rico (Ca negative) bankruptcy-like proceeding. In April, the US Court of Appeals for the 1st Circuit ruled that the Commonwealth is not required to pay "special revenue" debt service on Puerto Rico Highway and Transportation Authority (PRHTA) bonds (C negative) during the pendency of the bankruptcy-like proceeding. While the ruling affects only those states and the Commonwealth that are within the 1st Circuit, this is the first time that an appellate-level court has addressed the issue of whether pledged special revenues must be paid to bondholders in a municipal bankruptcy or restructuring process. In other municipal bankruptcies, utility and other enterprise revenue bonds have offered high recoveries when associated with general government insolvencies, though they have not always been immune from impairment despite likely falling under the "special revenue" definition in the Bankruptcy Code.

The uncertainty regarding the interpretation of "special revenue" resulting from the federal appeals court ruling underscores the importance of the linkage between a local government's general credit quality and that of its enterprises. The ruling has implications even for those entities located outside the 1st Circuit or not currently eligible to file for bankruptcy.

The "parent" local governments associated with the affected entities, as well as their current general obligation (or issuer) ratings and outlooks, are as follows:

3 notch difference:

For City of Chicago, IL, Water Enterprise (senior rating, Baa1), City of Chicago, IL (Ba1 stable)

For City of Cleveland, OH, Water Enterprise (senior rating, Aa1), City of Cleveland, OH (A1 stable)

For City of Dallas, TX, Waterworks and Sewer Enterprise (Aa1), City of Dallas, TX (A1 stable)

For Granite City Wastewater Treatment Plant, IL (A1), City of Granite City, IL (Baa1 stable)

For Lynn Water and Sewer Commission, MA (A1), City of Lynn, MA (Baa1 negative)

For City of Sheffield, AL, Electric Enterprise (Aa3), City of Sheffield, AL (A3)

For Center City District (Philadelphia) PA (Aa2), City of Philadelphia, PA (A2 stable)

4 notch difference:

For Monroe County Water Authority, NY (Aa2), Monroe County, NY (A3 positive)

METHODOLOGY

The principal methodology used in the issuer rating was US Public Finance Special Tax Methodology published in July 2017. The principal methodology used in the revenue ratings was US Municipal Utility Revenue Debt published in October 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

REGULATORY DISCLOSURES

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Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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