Memorandum

CITY OF DALLAS

DATE October 8, 2021

TO Honorable Mayor and Members of the City Council

SUBJECT **Fitch Ratings Assigns New 'A+' Rating and Stable Outlook for City of Dallas Hotel Occupancy Tax Revenue Refunding Bonds, Series 2021 – RATING ACTION**

Today, Fitch Ratings (Fitch) assigned its 'A+' credit rating and stable outlook to the anticipated Hotel Occupancy Tax (HOT) Revenue Refunding Bonds, Series 2021, currently scheduled for a negotiated sale on October 19 to refund outstanding Series 2009 Convention Center bonds for savings. The pledged revenues securing the bonds are 4.718 percent of the net 7 percent hotel occupancy tax collected within the City, excluding HOT generated at the convention center hotel. This is a new rating, as Fitch has not previously rated the Convention Center debt.

According to the published rating action commentary, the City's "'A+' rating on the bonds reflects the strong growth prospects of the pledged revenues due to the city's profile as a significant destination for business, leisure, and convention travelers," continuing that "the resilience of the revenue stream is indicated by the resumption of travel activity in the second half of fiscal 2021 and prospects for continued recovery and growth." Additionally, "the rating is also based on an expectation that the city will leverage pledged revenues once revenues recover to maintain coverage near but above the additional bonds test for anticipated improvements to the city's convention center." Notably, the analysis states, "Fitch anticipates recovery of HOT revenue growth to pre-pandemic levels in the next few years."

The rating decision by Fitch on the bonds is a strong reflection of the City's strategic recovery efforts and ability to provide public benefit during the COVID-19 pandemic, while sustaining tourism and convention interests, and is a favorable addition to the City's credit profile.

Attached is the rating report provided by Fitch today. Please let me know if you need additional information.

Sheri Kowalski

for M. Elizabeth Reich
Chief Financial Officer

[Attachment]

c:

T.C. Broadnax, City Manager
Chris Caso, City Attorney
Mark Swann, City Auditor
Bilierae Johnson, City Secretary
Preston Robinson, Administrative Judge
Kimberly Bizor Tolbert, Chief of Staff
Jon Fortune, Assistant City Manager
Majed A. Al-Ghafry, Assistant City Manager
Joey Zapata, Assistant City Manager
Dr. Eric A. Johnson, Chief of Economic Development and Neighborhood Services
M. Elizabeth (Liz) Cedillo-Pereira, Chief of Equity and Inclusion
Directors and Assistant Directors

FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Dallas, TX $236.6 Million HOT Rev Rfdg Bonds 'A+'; Outlook Stable

Fri 08 Oct, 2021 - 4:08 PM ET

Fitch Ratings - Austin - 08 Oct 2021: Fitch Ratings has assigned an 'A+' rating to the $236,595,000 City of Dallas, TX Hotel Occupancy Tax (HOT) Revenue Refunding Bonds, Series 2021.

The bonds are scheduled for a negotiated sale on Oct. 19 and will refinance debt outstanding for interest cost savings.

The Rating Outlook is Stable.

SECURITY

Pledged revenues securing the bonds are 4.718% of the net 7% hotel motel tax (HOT) collected within the City, after deducting HOT generated at the city convention center hotel.

ANALYTICAL CONCLUSION

The 'A+' rating on the bonds reflects the strong growth prospects of the pledged revenues due to the city's profile as a significant destination for business, leisure and convention travelers. The resilience of the revenue stream is indicated by the resumption of travel activity in the second half of fiscal 2021 and prospects for continued recovery and growth. The rating is also based on an expectation that the city will leverage pledged revenues once revenues recover to maintain coverage near but above the additional bonds test for anticipated improvements to the city's convention center.

KEY RATING DRIVERS

Revenue Growth Prospects: The Dallas market is an important business, leisure, and convention traveler destination in the state and nationally. Prior to the pandemic, HOT revenue growth was robust, with the 10-year CAGR exceeding U.S. GDP. Fitch anticipates recovery of HOT revenue growth to pre-pandemic levels in the next few years.

Sensitivity of Pledged Revenues: Similar to other areas of the country, HOT collections dropped precipitously in fiscal 2020, recording a 38% decline from the prior year results. Commencing in March 2021, HOT collections have been demonstrating a notable recovery but are not projected to achieve 2019 levels until the end of fiscal 2023 per a city consultant's study, providing solid MADS coverage. Plans are under consideration for potential improvements to the city's convention center, which could lead to sizable future debt issuance.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Recovery and growth of pledged revenues that consistently exceeds U.S. GDP and provides a substantial cushion above MADS.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Failure of pledged revenues to recover to their pre-pandemic levels by 2024 and historical growth patterns thereafter;

--Additional leveraging of the revenue stream, along with stagnant or declining revenues, that results in debt service coverage below 1.35x.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'.

Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

ECONOMIC RESOURCE BASE

Dallas is located in North central Texas. With a population of 1.33 million it ranks among the top 10 U.S. cities by population. The city serves as corporate headquarters for AT&T, Southwest Airlines, Texas Instruments, 7-Eleven, Inc., HollyFrontier Corp., Pizza Hut, Inc. and other large corporate organizations. Large employers in the education, government and health services sectors lend stability to the city's employment base.

The city's role as a wholesale and retail trade center is enabled by a strong transportation network of airports, rail and interstate highways. Dallas Area Rapid Transit (DART) provides major employers access to a highly skilled work force to support growing technology, finance, business and medical service sectors. Dallas is recognized as a business, leisure, and convention destination for travelers. The Dallas hotel inventory consists of approximately 38,000 rooms, 5,100 of which have been added to inventory since 2016. Another 1,600 rooms are expected to be added in the city within the next two to three years.

DEDICATED TAX CREDIT PROFILE

The pledged revenues do not meet the requirements set out in Fitch criteria for treatment as "pledged special revenue" under section 902(2) of the bankruptcy code and are not otherwise insulated from the operating risk of the city. Surplus revenues after the payment of debt service are maintained within the convention center enterprise fund and used for convention center operating expenses and capital needs.

Per state statute, the city levies a 7% HOT based on the room price on all hotels within the city's boundaries. The room rate must be over $2 per day and the stay must be for a period of less than 30 consecutive days. As permissible under state law, HOT revenues generated at the hotel adjacent to the city's convention center are pledged to the repayment of bonds issued to construct the hotel. Therefore, those amounts are deducted from the 7% HOT collections. By city ordinance, 4.718% of the net 7% HOT collections, after deducting the convention center hotel component, is pledged to the repayment of the HOT bonds. State law requires that HOT revenues be used for programs to attract tourists and conventions, convention center/visitor complex expenditures, convention center bond debt service, and other purposes authorized by the state.

Leisure and business travel, which represent approximately 70% of HOT collections, have led a revenue rebound in the second half of fiscal 2021. Preliminary 2021 projections point to a slight decline in pledged revenues from fiscal 2020; potentially less than 5%. Pre-pandemic, pledged revenue growth was robust, with the 10-year CAGR exceeding U.S. GDP in each of the prior seven years through 2019, which had a 10-year CAGR of 7.8%.

Assuming no additional leverage in the near term and an essentially level debt service schedule, with the city's consultant's forecasted recovery and growth of pledged revenues, debt service coverage in fiscal 2022 to 2026 is projected to range from 2.2x to 2.6x. However, Fitch fully expects the city will leverage pledged revenues in the future to address improvements to the city convention center. Assuming issuance to the additional bonds test, the debt service cushion is adequate at 3x the 6.7% revenue decline produced by FAST in a 1% GDP decline scenario and 1.3x the largest cumulative revenue decline (prior to 2020) of 15.5%. Fitch considers these results consistent with the 'a' resilience assessment and contributes to the 'A+' rating.

DATE OF RELEVANT COMMITTEE

07 October 2021

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of 3 - ESG issues are credit neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity.

For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY/DEBT	RATING

ENTITY/DEBT	RATING		
Dallas (TX) [General Government]			
• Dallas (TX) /Tourism Tax Revenues - Hotel Motel Tax/1 LT	LT	A+ Rating Outlook Stable	New Rating

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Dallas (TX)	EU Endorsed, UK Endorsed

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