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**Summary:**

## Dallas Convention Center Hotel Development Corp. Dallas, Texas; Moral Obligation

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### Credit Profile

#### Dallas Convention Center Hotel Development Corp, Texas

Dallas, Texas

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*Long Term Rating* A-/Negative Downgraded

Dallas Convtn Ctr Hotel Dev Corp (Dallas)

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Dallas Convtn Ctr Hotel Dev Corp (Dallas)

*Long Term Rating* A-/Negative Downgraded

## Rationale

S&P Global Ratings lowered its rating on the Dallas Convention Center Hotel Development Corp., Texas' series 2009A, B, and C hotel revenue bonds, issued on behalf of the City of Dallas, one notch to 'A-' from 'A'. The outlook is negative.

The downgrade reflects the downgrade on Dallas' moral obligation bonds to 'A-' from 'A', which relates to our view that despite the city's broad and diverse economy, which continues to grow, stable financial performance, and very strong management practices, expected continued deterioration in the funded status of the city's police and fire pension system coupled with growing carrying costs for debt, pension, and OPEB obligations are significant and negatively affect the city's creditworthiness. (For more information, see "Dallas General Obligation Bond Rating Lowered To 'AA-' From 'AA' On Rising Pension Liability And Costs," published Jan. 11, 2017, on RatingsDirect.)

Officials issued the series 2009B hotel revenue bonds as federally taxable Build America Bonds (BABs), in which the corporation receives a subsidy from the U.S. Treasury equal to 35% of the stated interest paid. The U.S. Treasury subsidy for BABs, if issued, is paid directly to the corporation, and does not constitute security for the payment of principal or interest on the series 2009B revenue bonds.

The bonds are secured by hotel project's net operating income, 6% state hotel occupancy tax (HOT) revenue collected on the qualified hotel project (limited to the initial 10 years of operation), 6.25% state sales and use tax collected on the qualified hotel project (limited to the initial 10 years of operation), and the citywide 7% local HOT revenues collected and dedicated to debt service. The rating is based on the moral obligation of the City of Dallas, given Dallas' city council-adopted grant program resolution, in which the council will consider making grants or loans from Dallas' general fund to the issuer should the pledged revenues be insufficient to service the corporation's debt. The current

strength of the city's moral obligation outweighs the strength of the pledged revenue base. This resolution is a revision to the public-private partnership program and guidelines that allow for a local government grant program and general fund appropriations of Chapter 380 grants to the corporation. Loans or grants are subject to annual appropriation by the city council. The state hotel occupancy and sales use tax pledged is limited to 10 years subsequent to the initial opening of the hotel, but the local citywide HOT is pledged as a security for the life of the bonds.

The 1,016-room Omni hotel, which opened in 2011, has at least 80,000 square feet of meeting room and function space, and 720 structured parking spaces. During the past five years, HOT revenues have continued to rise, with relatively stable trends from year to year. In addition, the hotel occupancy rate has steadily increased.

The debt service schedule indicates principal repayment on the series 2009A bonds beginning in 2018, principal repayment of the series 2009B bonds beginning in 2026, and principal repayment of the 2009C bonds in 2015. The debt service requirement steadily increases to about \$40.9 million in 2026 from \$35.2 million in 2015. Should hotel tax revenues be insufficient to cover the annual debt service requirement, the trustee will be able to access a debt service reserve fund, funded at the maximum annual debt service (MADS) payment (about \$41 million). Fiscal 2015 pledged collections of \$34.8 million provided 0.99x coverage of annual debt service but did not incorporate BAB direct payments. When calculating direct payments, debt service coverage increases to 1.35x. Fiscal 2015 pledged revenues still provided a weak, in our view, 0.84x coverage of MADS (when not taking into consideration direct payment subsidies).

The primary credit factor, however, remains the city council-adopted resolution, in which general fund appropriations will be considered to cover any deficiencies. The repayment of any loans made to the corporation by the city is subordinate to the corporation's annual debt service requirement.

## Outlook

The negative outlook reflects our view that the city faces near-term budgetary pressure due to increased costs for police and fire compensation, including pensions. Furthermore, the negative outlook reflects our understanding that the city's proposed plan to resolve the current pension situation is subject to modification and approval by the Texas Legislature prior to implementation.

Deterioration over the next two years in the city's budget flexibility, performance, or liquidity could result in a downgrade. Similarly, uncertainty regarding future fixed cost expenditures could make budgeting and forecasting more difficult. To the extent that this translates into pension underfunding and continued structural imbalance, it could cause us to lower the rating. Additionally, if the city's debt service, pension, and OPEB carrying charge elevate to a level we view as very high and the city is not successful in implementing an affordable plan to address the large pension liabilities, we could lower the rating multiple notches. Should the debt and contingent liabilities profile improve and a credible and affordable plan to overcome Dallas' very large and growing pension liabilities is established, we could revise the outlook to stable.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors,

have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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