



Rating Action: Moody's affirms District of Columbia's Aaa issuer rating and revises outlook to negative after US sovereign outlook revised to negative; other District ratings also affirmed

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New York, November 13, 2023 -- Moody's Investors Service has affirmed the District of Columbia's (DC) Aaa issuer rating and related ratings and revised DC's outlook to negative from stable following the November 10 revision of the Government of the United States of America's outlook to negative from stable and affirmation of the sovereign US rating at Aaa. We have also revised the outlook on the Washington Convention & Sports Authority, DC (WCSA) to negative from stable and affirmed DC's and WCSA's related ratings as follows:

- Aaa issuer rating
- Aaa on general obligation (GO) bonds (\$6 billion outstanding at the end of fiscal 2022)
- Aa1 on income tax secured revenue bonds (\$5 billion outstanding)
- Aa3 on senior lien dedicated tax revenue bonds issued by WCSA (\$389 million outstanding)
- A1 on federal highway grant anticipation revenue (GARVEE) bonds with a debt service reserve and A2 on GARVEE bonds without a debt service reserve (\$267 million total outstanding)
- A1 on senior ballpark revenue bonds and A2 on subordinate ballpark revenue bonds (\$179 million total outstanding)
- A1 on deed tax revenue bonds (\$33 million outstanding)
- Aa2 on tax increment revenue bonds (\$263 million outstanding)

The negative outlook applies to all of DC's and WCSA's outstanding ratings listed above.

RATINGS RATIONALE

The revision of DC's outlook to negative reflects the District's unique exposure as the nation's capital to the federal government through economic, financial, capital market and governance linkages. Total federal government spending as a percent of DC's GDP is over 45% and the District is particularly exposed to federal government employment and wages derived from it. Efforts to reduce the federal deficit, including potential federal workforce reductions and entitlement cuts, could have an outsized negative impact on the District's economy and finances. Congress has ultimate authority over the District and thus DC does not have the fiscal autonomy that states do. While the District set its tax rates, its ability to access all of its tax base is constrained because of a large proportion of tax-exempt federal property and the District's inability to tax the incomes of non-resident commuters without congressional approval. Congress must also approve DC's annual budget, although the District can spend locally-generated tax revenue without congressional approval. Therefore, challenges at the sovereign level could lead to governance and budgetary challenges for the District.

The Aaa issuer rating reflects the District's overall financial, economic and governance strength. The District's high-wage knowledge and services-based economy will continue to expand and is positioned for future growth because

employers are attracted to the District's highly educated workforce. The District has exemplary fiscal governance. The District has among the lowest pension liabilities of any large city and has pre-funded its other postretirement benefits (OPEB) liability, which affords it significant financial flexibility.

The Aaa rating on the GO bonds is the same as the District's Aaa issuer rating given the District's pledge of its full faith and credit and an unlimited property tax that is dedicated to debt service.

The Aa1 income tax secured revenue bond rating reflects the broad-based pledge of all of the District's personal income tax and business income tax revenue that results in high coverage of maximum annual debt service and strong legal provisions.

WCSA's Aa3 dedicated tax revenue bond rating reflects post-pandemic trends in consumption of hotel rooms, restaurant meals, alcoholic beverages consumed at restaurants or bars, and rental cars that resulted in the resumption of pledged revenue growth.

The A1 and A2 GARVEE bond ratings reflect the first lien on all of the District's federal highway aid reimbursements, sound legal structure and strong debt service coverage. The A1-rated bonds also have a cash-funded debt service reserve equal to maximum annual debt service.

The A1 senior lien and A2 subordinate lien ballpark revenue bond ratings reflect the strength of the corporate income tax surcharge pledged to the bonds and the District's covenant to increase that fee as necessary to pay debt service.

The A1 deed tax revenue bond rating reflects the narrow and volatile pledged revenue stream, a strong legal structure and strong coverage of maximum annual debt service.

The Aa2 tax increment revenue bonds rating reflects the breadth and strength of the tax base that generates the pledged real property increment and sales tax increment revenue collected in the "Downtown TIF," strong debt service coverage and strong legal structure.

RATING OUTLOOK

DC's and WCSA's negative outlooks reflect the District's economic, financial, capital market and governance linkage to the federal government. If the US government rating were downgraded, DC's and WCSA's ratings would also likely move because of the District's sensitivity to federal spending cuts, dependence on federal transfers and exposure to capital markets disruption.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Given the negative outlook, we are unlikely to upgrade DC's ratings in the next 12 to 18 months. Revising the outlook to stable would follow a revision of the US government's outlook back to stable.

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- A downgrade of the US sovereign rating

- Federal budget actions that have a material negative impact on the District's economy or finances, including significant reduction in the federal work force or entitlement cuts

- Erosion of the District's strong financial management practices, particularly leading to budget imbalance or draw-downs of fund balance below adequate levels

LEGAL SECURITY

The general obligation bonds are full faith and credit obligations of the District also secured by a statutory lien on a special real property tax unlimited as to rate or base and separate from the District's operating property tax levy.

The income tax secured revenue bonds are payable from a pledge of the District's personal income and business income taxes.

WCOSA's dedicated tax revenue bonds are payable from various hospitality-related taxes levied within the District of Columbia.

The GARVEE bonds are payable from federal highway aid reimbursements.

The ballpark revenue bonds are payable from District-wide corporate income tax surcharges and utility taxes and stadium-related taxes.

The deed tax revenue bonds are payable from deed recordation and transfer taxes.

The tax increment revenue bonds are payable from pledged real property increment and sales tax increment revenue collected in the "Downtown TIF."

PROFILE

The District of Columbia, the nation's capital, is small but wealthy. Its population is smaller than all but two states, but its per capita income is higher than all 50 states and its GDP is greater than 17 states.

METHODOLOGY

The principal methodology used in the issuer and general obligation ratings was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/rmc-documents/386953>. The principal methodology used in the special tax ratings was US Public Finance Special Tax Methodology published in January 2021 and available at <https://ratings.moodys.com/rmc-documents/70024>. The principal methodology used in the tax increment ratings was Tax Increment Debt Methodology published in September 2022 and available at <https://ratings.moodys.com/rmc-documents/393335>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

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Pisei Chea
Lead Analyst
State Ratings
Moody's Investors Service, Inc.
Zionsville
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Henrietta Chang
Additional Contact
State Ratings
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

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